FINANCIAL TIMES

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London catches the Wall St twitch, Page 19

NEWS SUMMARY

GENERAL

Hart in battle to revive campaign

Senator Gary Hart shrugged off suggestions that he should withdraw from the contest to secure the U.S. Democratic presidential candidacy, and battled to revive his flagging campaign in tomorrow's Ohio and Indiana primaries.

Following former vice-president Walter Mondale's crushing victory over Senator Hart in Texas on Saturday, a nationwide poll yesterday gave Mr Mondale a 43–27 percentage lead over his rival.

The third major candidate, the Rev Jesse Jackson, also confirmed that he was carrying on. Page 20

Miners step up fight

In the UK coal industry dispute, striking Scottish miners are pressing railwaymen to stop taking iron ore to the Ravenscraig steelworks, which is continuing operations with imported coal brought in by road.

National Coal Board officials are considering trying to make a longer-term pay deal with the miners to bring stability to the industry. Page 20

China attacks

China has accused the Soviet Union of backing Vietnamese attacks along its border. Page 3. China is to introduce identity cards for all civilians over 16 years of age.

French murder hunt

Paris police opened a murder inquiry when it was found that financier's son Prince Edouard-Xavier de Lobkowicz, whose body had been recovered from the river Seine, had been shot in the throat and shoulder.

Talks rejected

Greek Premier Dr Andreas Papandreou denounced the Turkish Government as militaristic and an agent of U.S. influence, and rejected the idea of a dialogue to resolve territorial disputes in the Aegean and Cyprus. Page 2

Ecuador surprise

Right-wing candidate Leon Febres Cordero, a millionaire businessman, defeated Social Democrat Rodrigo Borga, in the Ecuador presidential election, with 52.2 per cent of the three quarters of the vote counted. He pledged to take the country out of its economic slump. Page 2

Craxi to explain

Italian Premier Bettino Craxi is to write to U.S. President Ronald Reagan to clarify a proposal on nuclear arms control which has caused a diplomatic problem between the countries.

Pope's tribal greeting

Pope John Paul was greeted by tribal dancers when he arrived in Papua-New Guinea. They had abstained from sexual relations and meat-eating for a month to prepare for the ceremony.

Spanish arrest

Spanish police arrested near Barcelona Jose Balmon, 40, suspected leader of left-wing group Grapo, which claimed to have killed two police in Madrid earlier this year.

Channel trip battle

Chambers of commerce in the Channel ports Calais, Boulogne and Dunkirk, plan to fight the French Government move to stop British visitors making short trips without passports. They fear it will cost them substantial business. Page 3

Bus electrocutions

At least 35 passengers were electrocuted near Allahabad, north India, when bicycles on a bus roof tangled with overhead electric wires.

BUSINESS

Setback in Hong Kong market

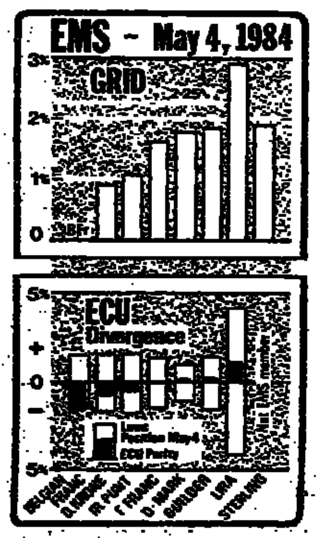
HONG KONG'S Hang Seng index fell 51.09 points to 953.7, its lowest since January 17, reflecting renewed uncertainty about the political future of the territory due to revert to China in 1997, and conviction that local interest rates will rise. Report, Page 37, Leading share prices, Page 36

WALL STREET: Dow Jones index closed up 1.25 at 1,166.56. Full share prices, Pages 34–37; Report, Page 37

LONDON Stock Exchange and money markets shut for holiday.

TOKYO: Nikkei-Dow index fell 31.21 to 11,158.96, and the Stock Exchange index slipped 0.94 to 874.5. Report, Page 37; Leading prices, other exchanges, Page 36

THE BELGIAN franc lost ground in the European Monetary System last week. It fell outside its divergence limit, but did not appear to be under any great pressure.



Part of the fall reflected the dollar's weaker trend against the D-Mark towards the end of the week. However, the D-Mark showed little overall change against its EMS partners and failed to benefit fully from the dollar's downturn as the market still showed concern over a possible strike by West German industrial workers.

The Italian lira was the strongest currency, followed by the Dutch guilder.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

DOLLAR in New York closed at DM 2.7785, SwFr 2.2845, Y229.1 and FFr 8.5225. Sterling closed at $1.3835.

INDIA has asked the European Investment Bank, which has yet to make a major loan outside the EEC, to lend it $55m for developing the Panna oilfields, and $15m to buy a seismic survey vessel. Page 7

EUROPEAN industrialists have called for a concerted effort to get Europe back to work and to restore prosperity. Page 10

NEW ZEALAND has imposed further penalities on finance houses which have not reduced interest rates.

NISSAN MOTOR of Japan has signed with Gulf Oil of the U.S. to produce motor oil in Dubai.

BAHRAIN Middle East Bank is seeking approval to change its capital structure and to issue $200m new shares. Page 22

The editorial content of today's international edition has been restricted because of continuing industrial action by IG Druck und Papier at Frankfurter Societäts-Druckerei, where the edition is printed. This prevents the publication of late-breaking news, the final Wall Street report and closing U.S. over-the-counter and Canadian share prices.

Washington split over quotas for Japan car imports

BY STEWART FLEMING IN WASHINGTON

Mr Donald Regan, the U.S. Treasury Secretary, has come out against early moves to remove quota restraints on Japanese car imports, saying that import quotas are a "trump card" in U.S. efforts to drive a hard bargain in trade talks with Japan.

In a television interview Mr Regan took issue with his colleague in the Reagan Administration, Mr William Brock, the President's special trade representative who has called for an end to import quotas, saying that unemployment in the car industry is due to "modernisation and revitalisation" and that removing the quotas would "force the U.S. to compete."

The controversy over whether to renew the agreement which limits Japanese car imports to the U.S. to 1.8m units in the 12 months to March 1985 has blown up following the disclosure that the major car companies have been paying their chief executives record bonuses and salaries as well as earning record profits.

Reagan Administration officials, while worried about the trade policy implications of the quota arrangement, are just as deeply concerned about the risk that the United Auto Worker's Union will be able to exploit the bonus and profits position in the industry to win an inflationary wage settlement in the industry wage round in late summer.

As the debate about import quotas has heated up in recent weeks, industry itself has become increasingly uneasy about the evidence that the "voluntary" quotas which Japan has imposed on car exports to the U.S. could become a focus of political debate in a presidential election year.

At a press conference last week, Mr Philip Caldwell, the chairman of Ford Motor, who earned salary and bonuses of $1.4m last year, warned that the removal of the quotas could bring "a fundamental change in the way U.S. car companies do their business." He said that if it was not possible to be competitive in the U.S., the companies would be forced to manufacture overseas and join the import business.

Mr Caldwell argued that a root cause of the industry's lack of competitiveness with Japan was the overvaluation of the dollar relative to the yen, adding that "restraints should not come off before the federal Government addresses the imbalance between the yen and the dollar."

Mr Caldwell vigorously defended the level of executive remuneration in the car industry, saying that the idea of capping executive pay is "repugnant to the American system." Claiming that the turnround in the profitability of the car industry should be a source of pleasure and pride, Mr Caldwell said: "But it seems that only in America would they beat up on the guy who is winning."

In a separate statement on the quota agreement Mr Owen Bieber,

Continued on Page 20

Opening Japan's markets, Page 3; Technology export dissent, Page 23

Reagan will appeal for support on El Salvador

BY REGINALD DALE IN WASHINGTON AND ROBERT GRAHAM IN LONDON

PRESIDENT Ronald Reagan is expected to make a major appeal for support for his Central American policies this week after the presumed victory election in El Salvador of the Christian Democrat Sr Jose Napoleon Duarte, the Administration's preferred candidate.

President Reagan will make a nationally televised address tomorrow if the formal results of the second round of Sunday's El Salvador presidential elections are known early enough, White House officials said.

Although no official count has been given, Sr Duarte is already claiming victory with 55 per cent of the vote. "There is no question that we have absolute assurance of having won," he told reporters at a rally early yesterday.

His rival, the right-wing extremist, Major Roberto d'Aubuisson, subsequently told journalists that he was unwilling to concede defeat, but nevertheless admitted Sr Duarte was ahead by a short margin in unofficial counting.

The U.S. Administration has not concealed its preference for Sr Duarte. Major d'Aubuisson has been linked by several senior U.S. officials with the right-wing death squads in El Salvador. His presence in the presidency would considerably complicate the channelling of U.S. aid to the Government in the 4-year-old war against the left-wing guerrillas.

The acrimonious debate between President Reagan and Congress over economic and military assistance has been temporarily halted pending the outcome of the Salvadoran elections. Mr Reagan is now anxious to initiate a vigorous new campaign to win congressional backing for the full $62m in urgent military aid for the U.S. - backed Government in El Salvador.

Before Easter Congressional objections to the package led President Reagan to use a special clause in a foreign assistance Bill permitting disbursement on presidential orders and giving 60 days in which to account for the funds. Some of this assistance has already been sent to the Salvadoran military.

At the same time the U.S. Administration would like to send a further $106m in military assistance and $134m in economic aid to El Salvador this year.

As part of President Reagan's new drive, he is expected to invite Sr Duarte to Washington within the coming weeks. Such a visit could even take place before the inauguration of the new Salvadoran president, due in early June.

The first round of the U.S.-sponsored presidential elections in El Salvador was held on March 25. Sr Duarte obtained 43 per cent of the vote but fell short of the clear majority laid down by the electoral law. Major d'Aubuisson trailed with 29 per cent of the vote and throughout the run-off campaign was dogged by his failure to forge an alliance with the other parties on the right.

Ecuador elections, Page 2; Panamanian elections, Page 3

Hurdle cleared in Lebanon as Berri accepts new position

BY NORA BOUSTANY IN BEIRUT

A MAJOR obstacle to the formation of a Lebanese Cabinet was overcome yesterday when the Shia Moslem opposition leader, Mr Nabih Berri, accepted his new designation as State Minister for South Lebanon and Reconstruction.

Mr Berri, the head of the Shia Amal movement, boycotted the first Cabinet meeting last Wednesday, emphasising that his initial appointment as Minister of Justice, Water and Electricity, left him out of the political decision-making process. Objecting that he had not been adequately consulted, Mr Berri also complained that the first set of portfolios would not enable him to act effectively on behalf of the mainly Shia Israeli-occupied south of the country and the devastated southern suburbs of the capital.

Prime Minister-designate Mr Rashid Karami, announced yesterday that he and President Amin Gemayel, signed a decree nominating Mr Berri as State Minister for South Lebanon and Reconstruction. This was Mr Berri's main condition for taking part in any government.

His participation is crucial because he commands one of the largest Moslem militias and because of the overwhelming majority of the Shia community as a single sect. His ally, Druze chief Walid Jumblatt, has said he would take part if Mr Berri's request was granted.

The breakthrough followed week-long consultations and behind-the-scenes meetings aimed at bringing together a Cabinet which would represent all religious communities and political views.

One Christian minister, Deputy Abdullah Racy, has still not indicated whether he would abandon his position and join.

Mr Racy, a Greek orthodox and the son-in-law of former President Suleiman Franjieh, had been a delicate choice. He was to speak on behalf of his community as well as his ageing father-in-law.

Mr Franjieh, a Maronite Christian, balked at the selection of Mr Racy, insisting that only another Maronite could stand for him, despite his relation to the Greek orthodox deputy through marriage to his daughter.

Two other Christian Lebanese warlords, Phalange Party head Pierre Gemayel and former President Camille Chamoun, were included in the Cabinet list announced Monday last week. Mr Franjieh, closely allied to Syria and deeply opposed to any link with Israel, considers himself an alternative to Mr Chamoun and Mr Gemayel, who favour links with the Jewish state.

However, Mr Karami said that he had met Mr Franjieh, who had showed understanding over this critical juncture in Lebanese history. What that means in practical terms is still not clear. The premier-designate has one day to resolve this issue before the next regular Cabinet session, scheduled for tomorrow.

Much hope is pinned on the success of the Government in tackling the sensitive issues of political reforms, the restructuring of the army and in transcending nine-year-old civil war rivalries and animosity.

Dollar spurred by U.S. interest rate signs

By Philip Stephens in London

THE DOLLAR rose strongly on foreign exchange markets yesterday, hitting its highest levels since early February amid expectations of rising U.S. interest rates and fears of serious industrial unrest in West Germany.

The rise pushed sterling to all-time lows below $1.39 in New York, although trading in sterling was thin because of the closure of the London market.

The pound was stable against other European currencies, but dealers said the fall against the dollar may intensify pressures for a rise in Britain's base lending rates.

The dollar closed in Frankfurt at DM 2.7590, up nearly 4 pfg from the London close on Friday and compared with DM 2.7410 at the end of U.S. trading last week.

By early afternoon in New York yesterday, it had risen further to DM 2.7755, while sterling slumped to $1.3865 from $1.4095 in London on Friday.

The dollar's gains, spurred by a growing consensus in foreign exchange markets that U.S. interest rates will move higher, led to forecasts by some dealers that it could soon climb to peaks over DM 2.80, reached last January.

Dr Henry Kaufman, chief economist at Salomon Brothers, predicted on Friday that U.S. interest rates could move "spectacularly higher" in the current business cycle, while U.S. bond prices have fallen sharply.

Signs that West Germany's powerful engineering union, IG Metall, will vote for strike action this week in pursuit of its claim for a shorter working week encouraged the rush into dollars.

Union members in the important industrial region around Stuttgart voted for strike action on Friday, while workers in the Frankfurt area will vote today and tomorrow.

"The markets have no alternative to the dollar. Interest rates are pushing it higher, while the D-Mark is being hit by the strike threat," the foreign exchange manager of a leading West German bank said.

The apparent reluctance of the West German Bundesbank to intervene to try to brake the dollar's rise also contributed to the U.S. currency's strength.

London gets the Wall Street twitch, Page 19; Currencies, Page 42

Tough budget as Lagos goes into IMF talks

BY QUENTIN PEEL IN LAGOS

MAJOR-GENERAL Muhammadu Buhari, Nigeria's military head of state, last night announced a package of tough new economic measures, including large real cuts in government spending, a virtual embargo on new projects, and a ban on foreign borrowing by state governments, in the first budget of his new regime.

The measures were announced in a national television and radio broadcast on the eve of a new round of talks with the International Monetary Fund (IMF) on an extended credit of up to $3.2bn, to tide the country over its severe balance of payments crisis.

The budget also includes a halving in the remittance allowance of expatriate workers, a continued wage freeze for Nigerians, increased interest rates and tighter ceilings on bank lendings.

Although many of the measures are likely to meet with IMF approval, including the reform and some simplification of the present structure of import duties and controls, the budget stopped short of key moves still under discussion, such as the devaluation of the naira, and reduction in government subsidies of petrol products.

General Buhari warned that his budget might result in short-term price rises and shortages of some goods, on top of the widespread shortages already apparent because of severe import restrictions over the past two years. "No medicine is without pain," he said.

He blamed the plight of the country "partly on the continued depression in the oil market, but largely on the gross mismanagement" of the Government of President Shehu Shagari, overthrown by a coup on New Year's Eve.

"We do not have much room for manoeuvre, and have therefore adopted some tough measures," he said.

The head of state promised that negotiations with the IMF would be "continued in earnest," but he allowed for the possibility of a failure to agree.

"Whether or not we are able to reach a complete agreement with the IMF, this country will have to rely more on its own efforts and resources to improve our economic situation," he said. "Nigerians must be ready to make sacrifices."

Capital spending in 1984 under the new budget will total N3.9bn ($5bn), a cut of 40 per cent on 1983, before taking into account rapid inflation. Current spending is put at

Continued on Page 20

Attempt to unseat Thyssen chief fails

BY JAMES BUCHAN IN BONN

HERR Dieter Spethmann, chief executive of the Thyssen industrial group of West Germany, has defeated a badly co-ordinated attempt to unseat him and will probably serve at least five more years at the helm of Europe's largest steelmaker.

At an extraordinary meeting, the Thyssen supervisory board expressed confidence in Herr Spethmann and his management team and announced its intention to extend his contract next year. Herr Harald Kühnen, the supervisory board chairman, has resigned from the company and given up the chair to Herr Günter Vogelsang, a former executive of Krupp.

The supervisory board's statement marks the close of an unprecedented boardroom intrigue which erupted in public at the company's shareholder meeting in Duisburg on March 30.

Shareholders were angry at Herr Spethmann's decision to drop a dividend payment for the first time since the 1950s and at the losses from his U.S. acquisition, the Budd Company of Troy, Michigan.

But they reserved their fury at Saturday's meeting for the supervisory board and above all Herr Kühnen, who repeatedly refused to express confidence in the management, the representatives of the Deutsche and Dresdner Banks and even the company's grand old man, Herr Hans-Günter Sohl, who was accused of meddling with the work of his successor and protege.

The statement said that the supervisory board, "including the representative of the Thyssen family," had expressed respect for Herr Kühnen's service to the company. This means that Count Claudio Zichy-Thyssen, who threw the fami-

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OVERSEAS NEWS

Fed official proposes greater emphasis on avoiding slowdown

BY STEWART FLEMING IN WASHINGTON

MR PRESTON MARTIN, vice-chairman of the Federal Reserve Board has taken issue publicly with the current thrust of the U.S. central bank's monetary policy saying that more emphasis should now be placed on avoiding a slowdown in economic growth and less on fighting inflation.

Mr Martin's remarks follow reports based on comments by Mr Frank Morris, the president of the Boston Federal Reserve Bank, suggesting that in March the Fed's monetary policymaking open market committee moved to tighten monetary policy.

Mr Morris's remarks have been seen as a breach of the normal convention according to which Fed officials do not disclose the results of a Fed policy meeting until after a record of the meeting is released several weeks later.

It has been clear from both the public comments of Fed officials and the record of earlier Federal open market committee (FOMC) meetings, that the central bank is increasingly uneasy about the dangers of a cyclical upswing in inflation this year.

Commenting yesterday on the inflation outlook, Mr Martin said that his views reflect a different stress which he believes should be placed on the balance between inflation and economic growth.

He says he is more concerned now with the evidence that the rate of increase in the growth of the economy is slowing.

So far as inflation is concerned he believes that there is evidence to suggest that the traditional link between strong economic growth and inflation has been broken in the current upswing. To back up the argument he cites improvements in labour productivity, the modest rate of wage increases and the downward pressures on prices exerted by import competition.

Ecuador elects head

BY SARITA KENDALL IN QUITO

SR LEON Febres Cordero, a 53-year old businessman at the head of the National Reconstruction Front, was yesterday elected President of Ecuador. Unofficial results gave Sr Febres Cordero a 5 per cent lead over his Social Democrat rival, Sr Rodrigo Borja.

The incoming president will assume office for a four year term on August 10. He will rule with the support of small right-wing parties that do not give him a congressional majority.

Campaigning on the basis of slogans like "Bread, roof and work," Sr Febres Cordero emphasised his business experience and his unflagging opposition to President Osvaldo Hurtado's Government.

Successive devaluations and a high inflation rate have fuelled popular discontent with economic policies, and the winning candidate played up his image as a forceful leader who could overcome the economic crises. Sr Febres Cordero said Ecuadoreans must work together to reconstruct the nation.

Opec faces tough decision over oil production quotas

BY RICHARD JOHNS IN VIENNA

THE ORGANISATION of Petroleum Exporting Countries faces a tough decision this summer and probably some bitter wrangling over whether to raise the ceiling on collective production in the second half of this year and, if so, by how much.

Its market monitoring committee and experts felt unable to make any firm forecast about demand at their meeting here on Sunday. The four-minister committee seemed anxious not to tackle in detail potentially divisive issues.

As expected, the committee recommended the output limits of 17.5m barrels a day and the basic reference price of $29 per barrel be kept in force. The critical discussions on production and prices will begin on July 10 at a full ministerial meeting in Geneva.

Any decision to raise the ceiling would unleash claims from about half of the 13 members for higher quotas. Some, in particular Iran with Algeria in support, are expected to argue strongly for maintaining the ceiling while increasing prices.

Mr Belkacem Nabi, Algerian Minister of Energy, suggested here that prices rather than quotas would dominate the July meeting.

Dr Mana al Otaiba, chairman of the committee and United Arab Emirates Minister of Oil, said after the meeting that Opec output in the second half could vary between 19m and 19.5m b/d, possibly reaching 20m b/d by the end of the year. He claimed that Opec output so far this year had been within the 17.5m b/d ceiling. Actual figures submitted by member states are understood to have given a rate of only 16.8m b/d.

The International Energy Agency in its latest monthly assessment gives Opec output of 17.8m b/d in the January-April period, a figure some Opec experts broadly concur with.

One important factor has been non-Opec production which, says Dr Otaiba, had been 1m b/d higher in the first quarter compared with the same period of 1983.

Dr Tam David-West, Nigerian Minister of Oil, attended the meeting as an observer. He is understood to have told the committee that Nigeria was prepared to observe its quota despite the economic consequences if other members did so too.

Since the beginning of April, Nigeria has reined back its output to 1.3m b/d after averaging 1.5m b/d in the first quarter.

Bonn could scrap tax amnesty

BY RUPERT CORNWELL IN BONN

THE PLAN of the Bonn coalition to grant an amnesty on possible tax evasion over party political donations has drawn such criticism from within its own ranks that the scheme could face heavy modification—and conceivably the threat of total withdrawal.

The most shrill complaints have come from the Free Democrats (FDP), the junior partners in the Centre-Right Government here.

Local spokesmen for the party up and down West Germany have condemned the proposals, while the support of the Parliamentary party must also be in some question.

Some members of the Christian Democrats (CDU) have also damned the scheme with faint praise and at least two CDU deputies have already announced they will vote against any such Bill in the Bundestag.

The flood of criticism, moreover means that Chancellor Helmut Kohl will be forced to address the embarrassing issue when he makes the keynote speech tomorrow at this week's CDU national congress in Stuttgart.

The scheme, were it to become law, might mean that up to 1,800 cases of possible tax evasion, which could lead to prosecution, would be dropped.

Herr Kohl, who has never lacked a thick political skin, has himself rejected all criticism as unjustified.

The FDP, which has traditionally held the balance of power between Left and Right at national political level, has been doing badly of late in regional and local elections.

Its poor performance has already led to criticism from inside the party of its leader of ten years, Herr Hans-Dietrich Genscher, the Foreign Minister.

Although his re-election as leader at the FDP congress in Munster next month appears not to be in doubt, the storm over the amnesty affair can only add to his difficulties, and those of the party as a whole.

'Agent Orange' suits settled for $250m

SEVEN U.S. chemical companies tentatively agreed yesterday to set up a $250m (£178m) trust fund to settle claims by thousands of Vietnam veterans citing cancer and other diseases from exposure to the chemical Agent Orange, a defence lawyer said, **Reuter reports from New York.**

The out-of-court agreement was reached hours before jury selection was scheduled to begin in a handful of cases representing more than an estimated 50,000 claims

Security talks reopen

The European Security Conference opens its second session in Stockholm today with sharp differences remaining between Nato and Warsaw Pact delegates over the terms for discussion, **David Brown reports from Stockholm.**

Karen camp seized

Burmese Government troops seized a camp of Karen insurgents on the Thai-Burmese border on Sunday in a sustained ground attack that sent more than 3,000 Karen civilians fleeing into Thailand, a Thai provincial police chief said yesterday, **AP reports from Bangkok.**

Sikhs exchange fire

Sikh terrorists assassinated a village leader and wounded five people yesterday, as the Government announced that 22 Sikh militants were arrested and 13 firearms seized in Moga City, **AP reports from New Delhi.**

Blow for French Left

France's ruling Left suffered another electoral blow at the weekend when the Communists lost control of Noisy-le-Grand, east of Paris, their seventh such defeat since last August, Reuter reports. Mme Francoise Richard of the neo-Gaullist RPR Party took 53 per cent of the vote on Sunday to oust the Communist mayor, Mme Marie-Therese Boutmann, who got 36 per cent.

Pipeline setback

The prospects of an early start on the construction of the $15bn (£10bn) Alaska natural gas pipeline have suffered another setback following the decision of Internorth, a leading U.S. pipeline company, to withdraw from the project, **William Hall reports from New York.** The company, which is the third of the original 11 partners in the project to withdraw, says its decision reflects "our concerns about marketability and financing obstacles facing this project."

Cameroon alarm

President Paul Biya of Cameroun has imposed a state of emergency in the district surrounding the capital, Yaounde, 12 days after an unsuccessful attempt by presidential guards to overthrow his government, **AP reports from Yaounde.**

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Delors promises taxes will be cut next year

BY DAVID HOUSEGO IN PARIS

COMPANIES and individuals in France will pay lower taxes next year, according to M Jacques Delors, the French *Finance Minister.*

M Delors also announced over the weekend a novel scheme to prove that the Government will live up to its promises to cut taxes. Taxpayers will next year find two figures on their tax slips.

The first will show what they would have paid before President Mitterrand's promise in September 1983 to reduce the tax load. The second will be *their actual tax demand* for the year.

The French press has almost unanimously translated M Delors' words into a 3-6 per cent rebate, which would fall conveniently in advance of the critical legislative elections in March.

But there was no official confirmation yesterday that the Government has made up its mind on the size of the cut, and who will benefit from it.

M Delors intended his announcement of a reduction in taxes to provide comfort for the Left's followers who were chilled by his warnings earlier last week of a further "austerity" budget for 1985.

Instead, his remarks at the weekend got him further into trouble with the Communists who fear the tax cuts will benefit the middle classes and are opposed to the sharp reductions in expenditure needed to make them possible.

In the difficult task of combining the President's double pledge to cut taxes while stabilising the Budget deficit, M Delors has also run into the hostility of Cabinet colleagues.

M Delors' dilemma is that unless he cuts deep into expenditures this year and next, he risks either a further widening of the budget deficit or being unable to fulfil the President's tax cut pledges.

Papandreou rejects talks to end row with Turkey

BY ANDRIANA IERODIACONOU IN ATHENS

DR ANDREAS Papandreou, the Greek Prime Minister, has denounced the Government of Mr Turgut Ozal in Turkey, as militaristic and an agent of U.S. influence in the region, and has rejected a dialogue to resolve territorial disputes in the Aegean and Cyprus.

His statement came at a weekend rally in Salonika, Northern Greece, attended by a record crowd of several hundred thousand supporters. The rally effectively kicked off the Greek campaign for the June 17 European Parliament elections.

These have taken on the dimensions of a make-or-break popularity test for Dr Papandreou's Socialist Government, which swept national elections ending nearly half a century of Right-wing rule in October 1981.

The rally also set the stage for the May 10-13 Socialist Party congress—the first in its 10-year history.

"Mr Ozal has offered us an olive branch, but he did so with a gun in his other hand. There can be no dialogue with a militaristic imperialist government which acts as a gendarme for superpowers in the region," the Prime Minister said.

In contrast to 1981, Dr Papandreou took a soft line on the EEC. He did not mention the possibility of a Greek withdrawal, but spoke in favour of better terms for Greece within the Community.

OVERSEAS NEWS

Peking promises more weapons for PLO

MR YASSIR ARAFAT, the leader of the Palestine Liberation Organisation, yesterday secured a Chinese commitment to supply further weapons to the PLO as well as continued political backing.

The official New China news agency quoted Premier Zhao Ziyang as telling Mr Arafat that China would provide "the cause of Palestinian liberation with political, material and moral assistance within its capability." Middle East diplomats took the term "material assistance" to mean military and medical aid.

Zhao gave the assurance before Mr Arafat left for Pyongyang, North Korea, after a three-day visit to China.

China, which does not have diplomatic relations with Israel, is one of the PLO's long-term backers and has regularly provided medical assistance, military training for PLO officers, and weapons, including small arms and light artillery.

In his talks with Deng Xiaping, the Chinese leader, which lasted 80 minutes, Mr Arafat discussed President Reagan's recent trip to Peking and the latest moves to convene an international conference on Palestine, the PLO chief said.

The PLO and Jordan have suggested holding the conference under United Nations auspices, saying all concerned parties, including Israel and the five permanent members of the UN Security Council, should take part.

China, which is a permanent member along with France, Britain, the U.S. and the Soviet Union, has voiced support for the proposal, but Israel has rejected it and the U.S. has expressed reservations.

Asked if the Chinese indicated how far they would go to convene such a meeting besides offering verbal support, Mr Arafat said: "It is under discussion." He said the issue was also being debated with other permanent members of the Security Council, Arab states and members of the European Community.

Mr Arafat appears to be using his visits to China and North Korea to build up his prestige ready for a meeting this week in Algiers to reunite major factions within the PLO.

Reuter

China hits at Soviet aid to Vietnam

By Mark Baker in Peking

CHINA has accused the Soviet Union of backing Vietnamese attacks along the Sino-Vietnamese border during the past month.

In its first direct criticism of the Soviet Union since the latest skirmishing began, China has condemned Moscow for "supporting Vietnamese aggression" and for "joining an anti-Chinese propaganda campaign."

Both China and Vietnam are now claiming hundreds of deaths and many more casualties in sporadic artillery attacks and hand-to-hand fighting along their border.

Mr Le Mai, assistant to the Vietnamese Foreign Minister, said in Hanoi last Thursday that the conflict was now at its worst since the brief war between the two countries in early 1979.

The border issue now appears likely to be raised by the Chinese leaders when Mr Ivan Arkhipov, First Vice-Chairman of the Soviet Council of Ministers, visits Peking.

Mr Arkhipov, the most senior Soviet official to be invited to China in about 20 years, is expected to be in Peking next week, primarily for trade and economic talks.

U.S. in fresh bid to open Japan markets

BY JUREK MARTIN, FAR EAST EDITOR, IN TOKYO

FINANCIAL officials from Japan and the U.S. conferred again in Hawaii over the weekend in another attempt to bridge the gap between the two countries over the liberalisation of the Japanese capital markets.

This session, the fourth since February, came just before Mr George Bush, the U.S. Vice-President, arrives in Tokyo tomorrow for trade and financial negotiations.

A key point in the background appears to be a shift in the Japanese position which could, under certain circumstances, allow foreign banks to engage in trust banking in Japan.

The Ministry of Finance in Tokyo has circulated a proposal whereby the Japanese branches of foreign banks, acting on their own, and not as previously proposed, in collaboration with Japanese securities houses, could be authorised to handle some of the $50bn (£35bn) pension fund market.

Opening this sector of the market to foreign banks has been one of the specific U.S. demands to Japan.

But the Japanese Finance Ministry has not as yet shown any inclination to sanction the approach proposed so far, which involves joint trust banking concerns being established by leading U.S. banks and the "big four" Japanese securities firms—Nomura, Nikko, Daiwa and Yamaichi.

The Ministry's objections have basically been that this would entail a breakdown of the fundamental demarcation line between banks and securities companies, and threaten the viability of some of the seven existing Japanese trust banks.

Indeed its proposals would, it appears, specifically exclude the entry of Japanese commercial banks, as well as securities houses, into trust banking via the Tokyo branches of foreign subsidiary banks.

Thus, an institution such as the Bank of California, acquired last year by Mitsubishi Bank, would continue to be barred.

The Ministry's idea may appeal to the U.S. Government and give the semblance of achievement to the Vice-President's visit next week, but it may sit less well with the powerful vested Japanese interests.

Both the securities houses and the 13 major "city" banks have, in their various ways, been pressing for less rigid demarcation boundaries.

Last week's market-opening package referred to financial liberalisation only in the most general terms, pending the announcement of more specific measures by the Ministry towards the end of this month.

Bilateral pact on air fares

By Gareth Griffiths

AIR FARES for off-peak flights between the UK and the Netherlands could fall by as much as 50 per cent in the next few months as a result of a government agreement liberalising pricing regulations.

The deal between the British and Dutch governments will be announced tomorrow by Mr Nicholas Ridley, Britain's Transport Secretary. It will act as a curtain-raiser to discussions on Thursday in Brussels by EEC transport ministers, who will be discussing ways of liberalising European air fares.

Mr David Mitchell, the junior transport minister, agreed with the Dutch Government last Friday on the ending of the pool system operated by the two dominant national carriers, British Airways and KLM, the Dutch Airline.

BA welcomed the move yesterday and said it was pressing for more liberal aviation policies by European governments. British Caledonian Airways also welcomed the news and said it would open the market to new carriers, including regional operators.

At present a return BA flight from Heathrow, London to Schiphol, Amsterdam costs £156 by Club class and £132 on an Euro-saver deal.

Decisions sought on aviation problems, Page 12

French passports fight

BY DAVID HOUSEGO IN PARIS AND DAVID HELLIER IN LONDON

CHAMBERS of Commerce in Calais, Dunkirk and Boulogne are set to fight the French Government's decision to end the agreement allowing Britons into the country for up to 60 hours without a passport.

The Calais Chamber of Commerce reckons that day-trippers spend between £30m ($42m) and £50m each year in the town's shops, bars and restaurants. "A lot of Calais shopkeepers will be wringing their hands as a result of this decision," said Mr Geoff Treble, the Chamber of Commerce's representative in London. "Many shops have been opened specifically to meet the needs and wants of the British," he said.

M Henri Ravisse, president of the chamber described it as a case of "using a boxing glove to crush a flea."

British nationals, who in the past have been able to enter France simply by filling in identity forms provided by the ferry companies, will from July 8 only be allowed in with a standard British passport, or a one-year visitor's passport.

The British Foreign Office, which has been negotiating with the French since last year when French immigration officers turned back about 700 black Britons using the ferry companies' identity cards, said it "very much regretted" Sunday's decision which came abruptly.

It said it had come a long way in trying to meet the French demands.

The French are concerned about illegal immigration and see the 60-hour passes as virtually uncontrolled means of entry.

A French Foreign Ministry official in Paris said that passes issued by British travel agents represented an "enormous loophole." British citizens had the right to travel freely in France, the official said, but it was up to the British authorities to make clear who was a British subject and who was not.

The French authorities decline to say how many illegal immigrants have entered France through Britain or to specify their nationality.

Poll win claimed

By David Gardner in Panama City

DR ARNULFO Arias, the 83-year-old right-wing populist three times ejected from office by the Panamanian military, claimed victory yesterday in Panama's first general election in 16 years.

Dr Arias won 53 per cent on an unofficial count of slightly under half the votes. No official results were available as the count was postponed because of the slow arrival of returns, officials said.

Dr Arias said that he feared his supporters would take over the streets unless the military-backed government conceded him his victory.

South African politicians fuel oil price controversy

BY OUR JOHANNESBURG CORRESPONDENT

SOUTH AFRICA's oil controversy gathered momentum at the weekend with Opposition politicians and newspapers claiming to have unearthed further evidence of alleged corruption in the procurement of the country's fuel.

The allegations of over-payment for oil supplies by at least R385m (£218m), was first raised in a dossier handed to Mr P. W. Botha, the Prime Minister, last month by Dr Frederick van Zyl Slabbert, leader of the Opposition Progressive Federal Party (PFP).

Although reporting about fuel procurement is severely restricted by South African legislation, local papers as well as PFP members of Parliament have been steadily disclosing further evidence of alleged misdeeds. (Five senior State officials are said to be mentioned in the dossier, which the Prime Minister has handed over for investigation to Mr Justice P. J. van der Walt, the Advocate General.)

The Johannesburg Sunday Express claimed to have uncovered evidence that a leading Italian businessman resident in South Africa acted as an intermediary between the Government and unnamed oil sources, despite official denials. In Parliament last week, the PFP claimed that the businessman may have made as much as R1,000m.

Yesterday, Mr Roger Hulley, an Opposition MP, claimed that the South African Government had rejected offers of cheaper oil deals, thus pushing up the price of petrol by between three and 5 cents a litre.

In a further development, Mr John Malcomess, the PFP MP for Port Elizabeth, said that further evidence on the affair had been discovered by the party and sent to the Advocate General. This included copies of contracts and telexes involving the state oil purchasing agency, the Strategic Fuel Fund, and the Department of Mineral and Energy Affairs.

Mr Botha last week called the allegations "speculative and erroneous."

Far-Right group founded

BY OUR JOHANNESBURG CORRESPONDENT

THE SPLIT in the once united Afrikaner community of South Africa widened at the weekend with the launching of the Afrikaner Volkswag, an ostensibly cultural organisation, which will also serve as a platform for a far Right alliance opposed to the ruling National Party.

In a ceremony part mystical, part militaristic and amid appeals to the blood, "volk" and "vaderland," the AVW (literally "Sentinels of the People"), was officially founded at Pretoria's Skilpadsaal Hall before 5,000 delegates from all over the Republic.

Prominetn guests at the ceremony included leaders of the ultra-Right Conservative Party, led by the former Cabinet Minister, Dr Andries Treurnicht, and the Herstigte Nationale Party (HNP), of Mr Jaap Marais.

Prof Carel Boshoff, former chairman of the Broederbond, the once all-powerful Afrikaner secret body, and his wife, Anna, daughter of former Prime Minister, Hendrik Vervoert, were chosen as interim leaders.

MANAGEMENT AMIDST DIVERSIFICATION

THE BIGGEST IN THE SMALLEST

Epson Corporation

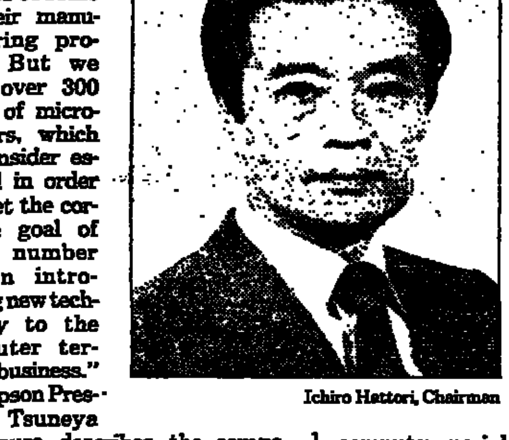
By Geoffrey Murray

The 1964 summer Olympic Games in Tokyo provided a unique business opportunity for the long-established Japanese watch company Seiko. But no one at the time could have imagined that this would lead to the creation of a new company playing a leading international role in computer peripheral equipment and hand-held personal computers. Ichiro Hattori, a member of the family that has run Seiko since its foundation in 1881, recalls that when Seiko was named official timer for the Olympics the company saw it as a great opportunity to become better known internationally. Until then, the timing of Olympic events and the production of results had been a merely mechanical operation. Seiko, however, wanted to introduce an element of electronic technology, then just beginning to emerge in many products. And of its creations was an electronic printer. "We didn't have any intention at that time to develop a separate business in digital printers," admits Mr. Hattori, "but the timing proved to be just right in many respects. Within a year or two of the Olympics we conceived the idea that we could, after all, build a new business around the electronic printers we had developed for the Games."

Printers already existed linked to mainframe computers. But these were bulky and heavy (weighing 70 to 90 pounds on average). Suwa Seikosha, one of watch manufacturing companies of the Seiko group, produced a lightweight printer of just over four pounds for cash registers and point of sales recorders. The need was there. Cash register manufacturers were just in the process of switching over from mechanical to electronic systems and needed a portable printer. Calculators were also going through a major technological change at the same time, generating a further demand for the Seiko-developed product. Without really knowing the full potential of the business, but willing to give it a try, Suwa Seikosha established a separate company for this venture. It was headquartered near Suwa Seikosha in Nagano Prefecture, in the Central Japanese Alps. Eventually, the new creation assumed its current corporate identity as Epson (after its main product line, electronic printers, currently accounting for 70 percent of total output).

"Customization—Key to Success"

Manufacturing an average one million units a month, Epson claims a dominant 70 percent share of the world market for micro-printers. How was this achieved? Epson Chairman, Mr. Hattori, says: "We were successful through a policy of customizing micro-printers. This is an art of business we learnt from our long association with watch manufacturing, where you have to have many different designs to appeal to a wide variety of customer tastes. Electronic companies normally want to limit the number of models so as to have economies of scale in their manufacturing process. But we have over 300 types of micro-printers, which we consider essential in order to meet the corporate goal of being number one in introducing new technology to the computer terminal business."



Ichiro Hattori, Chairman

Tsuneya Nakamura, President

Epson President Tsuneya Nakamura describes the company's overall business philosophy in this way: "Basically, if there are two different products that have the same performance and function, then the emphasis should be on greater portability. The core of R and D (carried out by Suwa Seikosha) is to create products that will be smaller and lighter without any loss of function. The trend of the computer industry is towards small keyboards, small printers and small displays. We want to be industry leader in moving in that direction."

In the printer sector, Epson's main drive now is to produce types that will operate at a much higher speed and at much lower noise levels. According to Mr. Nakamura: "We feel it is Epson's social responsibility to come up with faster printers that are relatively cheap." Currently, he explains, computer speeds are getting faster, but this is not being matched by the printers. Some progress has been made in the large printers attached to mainframe computers, but the printers currently available for personal computers are lagging behind. The current highest printer speed is 200 characters per second. Epson's aim is to increase that tenfold.

"Cooperation Not Competition"

Where does Epson see itself fitting into the ever-growing international computer market? Both Mr. Hattori and Mr. Nakamura stress they have no interest in a head-on clash with such computer manufacturing giants as IBM. Epson wants to promote its name in computer peripherals, as well as being strong in the hand-held personal computer field.

From Seiko's long business traditions in watches, the Epson management has developed a marketing strategy that best suits a less-than-giant operation. According to the Chairman: "As in watches, you cannot always do your marketing under your own brand name. We think it is very important to put some stress on OEM as well. Maybe if you are IBM you can do what you want... selling only under the IBM brand. But we are a smaller company, basically a peripheral company. Of course, we want to sell Epson products under the Epson brand. But we cannot afford to ignore OEM. To develop our business we want to work with companies like IBM, Hewlett Packard, Apple, etc." President Nakamura adds the comment that "we have no intention of trying to compete with the large computer makers. We know our own strengths and we will work to develop these further, with new applications of our products. IBM, after dominating the mainframe market, is moving into personal computers too. It doesn't make hand-held computers at present. Our attitude is that we have all kinds of printers so we will do OEM business with IBM or anyone else. If IBM decides to go into hand-held computers, well we would like them to use Epson displays and printers, which we think are superior to anything else on the market."

Despite this attitude, Epson certainly doesn't hesitate to challenge new non-traditional business areas. For some time electronic appliance manufacturers have been working on the concept of the ultimate portable television set, no bigger or fatter than a wallet, utilising the technology developed for calculators, liquid crystal display, to replace the bulky braun or cathode ray tube of conventional sets.

Monochrome models have begun to appear on the market, although most of the big manufacturers are holding back until they see how the public reacts. Epson, however, astonished a great many people in the industry by unveiling in mid-1983 the world's first pocket colour television set (Seiko already having achieved another first in creating a television wristwatch).

Mr. Hattori says the reason for developing this product was to fill a gap in the product range as far as marketing was concerned. "Sometimes, our computer-related products are not enough. In the United States, for example, shops selling personal computers also deal in television sets and other electronic products. So our distributors wanted to be able to go to such shops and sell them a miniature television as another Epson product. Another consideration was to meet the challenge of some of the electronic appliance makers who are trying to move into computers. I am sure that the distribution channels for home appliances and computers will become unified, so we wanted to be prepared for that."

For Suwa Seikosha, which developed the product, the technology wasn't that difficult—being based on integrated circuits and LCD's, in which it already had considerable expertise. The pocket television, therefore, is a technically compatible product with the rest of the Epson range. But it still seems rather an unusual and risky diversification to undertake. Mr. Hattori answers this point with an explanation that Epson or Seiko doesn't have that much to lose, apart from the possibility of some financial setback if the product doesn't sell well. It all comes down to whether a company is willing to challenge the unknown, and whether it's reputation will suffer if it fails.

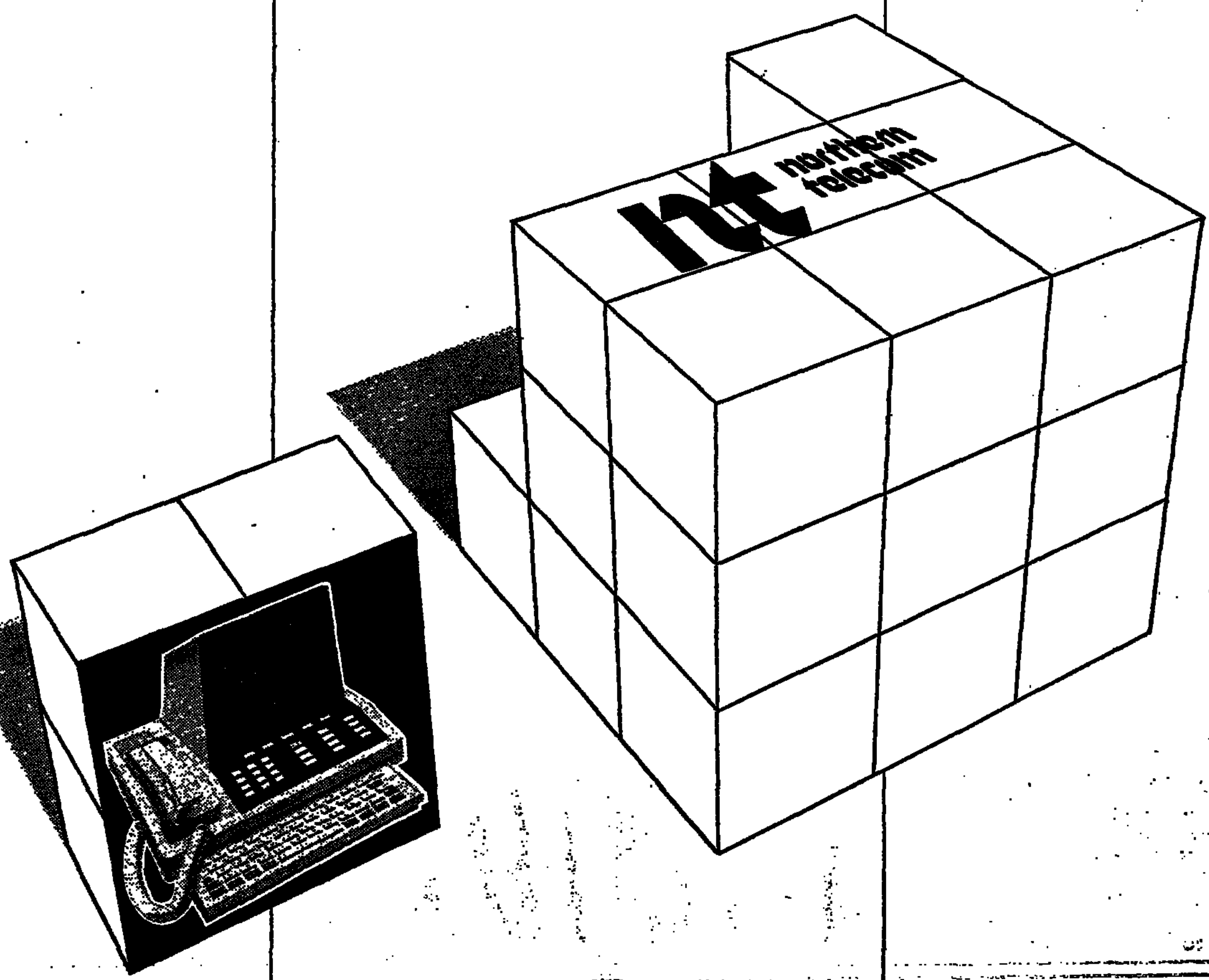
"Daring, to Try Something New"

It's interesting, he says, that the miniature television sets now available or soon to be introduced are primarily those produced by a company whose main business line is electronic calculators, and Epson, closely associated with one of the world's biggest names in watches. "R and D is a funny thing," the Epson chairman muses. "Until someone achieves the first breakthrough everyone thinks it's very difficult. But once it's been done by someone, then the rest become confident and quickly succeed in producing matching technology. I am sure that a number of the big electric appliance makers could very readily produce a miniature colour television set. They know so much more about the business than we do, so I am sure they think our product is not good enough. But in a sense, Epson is an amateur so we are daring enough to try anything. The other companies already have a big reputation in the television business. If they made a mistake and produced a new product that failed, it would be very bad in terms of damage to their corporate image. It's the same for us in watches. We cannot create anything that is too revolutionary because we have to consider our image. That's the advantage of diversifying into an entirely new area: no one blames you if you don't get it right first time."

In deciding to diversify out of its traditional watch business, Seiko's management kept in mind the example of their Swiss counterparts. "For 150 years they had a world monopoly and were very profitable," observes Mr. Hattori. "That lasted until the Japanese watch industry became strong, and especially since the early 1970s when we invented the quartz electronic watch. After that everyone was making digital watches. But the Swiss watch industry could not diversify. They were locked into watch making technology, which is a precision mechanical industry. They are still very good, but it is very difficult for a watch company to become anything else under those circumstances. So, with the watch market becoming saturated we looked round to see where we could go next. The result of that can be seen now—with computer peripheral equipment accounting for almost half our annual sales."

In some areas, Epson naturally is a late starter. But it is making a strong effort to catch up. One example is auxiliary memory devices for expanding computer power, typified by the development of the floppy-disc drive(FDD). "This is an area where we want to put in a lot of effort," agrees Mr. Hattori. Epson got into the memory field as long ago as 1973, but proved to be ahead of its time—the highly advanced technology it developed proved impossible for mass production. Now with the standardization of FDD's to a three-and-a-half inch format, the company is ready to turn its expertise in microelectronics to full advantage. Its current goal is 20 percent of the world market.

NORTHERN TELECOM. BUILDING THE TELECOMMUNICATIONS FUTURE.



DIGITAL TECHNOLOGY TODAY: THE FUTURE OF COMMUNICATIONS.

Global communications are on the threshold of being transformed. Someday people everywhere will be able to instantaneously transmit voice, data, and images across a city or around the world. Northern Telecom has named this emerging international communications network the Intelligent Universe.*

These future communications networks will be based on digital technology—a form of binary pulses that translate every form of information into uniform codes of electrical pulses. However, for nearly a century the telecommunications industry has been based on analogue technology, suitable primarily for voice transmission.

THE FIRST COMMITMENT TO FULLY DIGITAL SYSTEMS

In 1976, Northern Telecom triggered the current communications revolution. It announced its Digital World,* the global telecommunications industry's first corporate commitment to families of **fully** digital switching and transmission systems to handle all information, including the human voice, in a common format—the language of the computer.

For the first time, the telecommunications and computer technologies were effectively merged.'

WORLD LEADERSHIP IN DIGITAL TECHNOLOGY

Every other international manufacturer has since followed Northern Telecom's lead. However, its commitment to fully digital systems, and its annual investment of nearly 10 percent of worldwide revenues on R&D, have kept Northern Telecom technologically two-to-three years ahead of any competitor.

Today, Northern Telecom is extending its leadership in digital telecommunications by developing new integrated circuits and software which constantly evolve and enrich its proven systems. Northern Telecom has more than 16 million equivalent lines of fully digital Digital Multiplex Systems (DMS*) and private branch exchanges, in service or on order, in 50 countries. It is by far the largest supplier of fully digital systems in the world.

Northern Telecom's customers include all major telephone companies across North America, including Bell Canada, 21 of the 22 U.S. Bell operating companies, the specialized common carriers, the U.S. military, the health and hotel industries, governments, and PTT's in Europe, the Middle East, Africa, Asia, the Caribbean, and Latin America.

Northern Telecom has developed and manufactured the most complete line of fully digital telecommunications systems in the world—the DMS-1, DMS-10, DMS-100 Family of central office digital switches and the SL* Family of digital business communications systems.

When the DMS-100 Family was introduced in 1979, it offered about 300 features. Today, as new capabilities and members of the family are added, it has more than 1,300 features. And the total continues to grow while other manufacturers are still introducing their basic systems.

MEETING THE NEEDS OF THE INFORMATION AGE

The SL Family, which can meet the needs of organizations for 30 to 30,000 telephone lines, will serve as network controllers for voice, data, and other forms of information in Northern Telecom's OPEN (Open Protocol Enhanced Networks) World.*

The OPEN World, announced in 1982, comprises a planning framework, new products, and enhancements of established DMS and SL systems, to address the growing market for improved information management. In the OPEN World, the DMS and SL families function as the office controller, linking Northern Telecom's systems with those of other manufacturers in efficient, cost-effective communications and information networks.

Northern Telecom has already made the proprietary protocols to its switching systems available to the Wang, Sperry Univac, Digital Equipment, Hewlett Packard, and Data General corporations to develop compatibility between their products in the fields of voice and data communications and office automation. The OPEN World will be able to accommodate most types or makes of equipment, allowing all major office-communication functions to be undertaken on one integrated system.

Through the Digital World and the Open World, Northern Telecom has become the global leader in creating the Intelligent Universe.

For more information on Northern Telecom and its products contact: Northern Telecom plc., Berkeley Square House, Berkeley Square, London W1X 5LE. Telephone: 01-491 4599.

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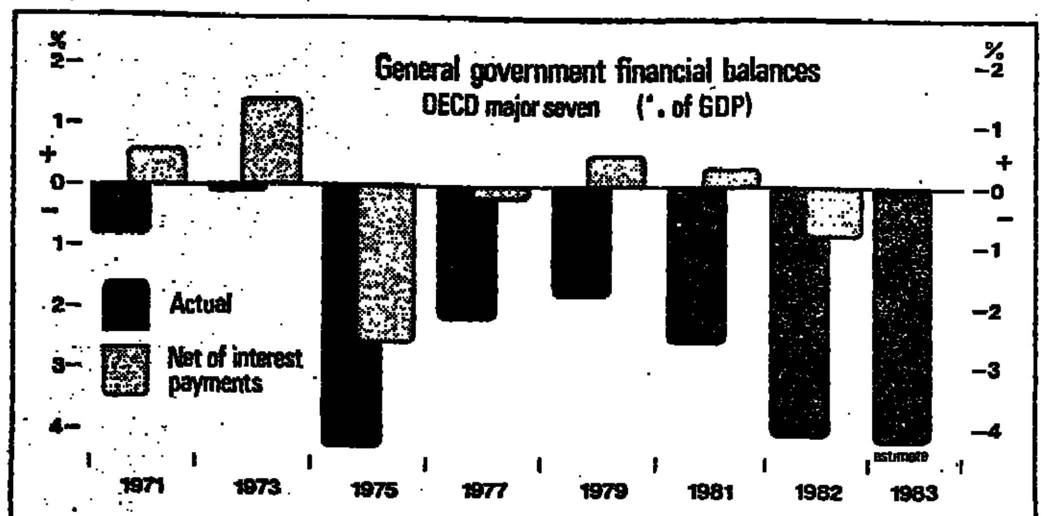
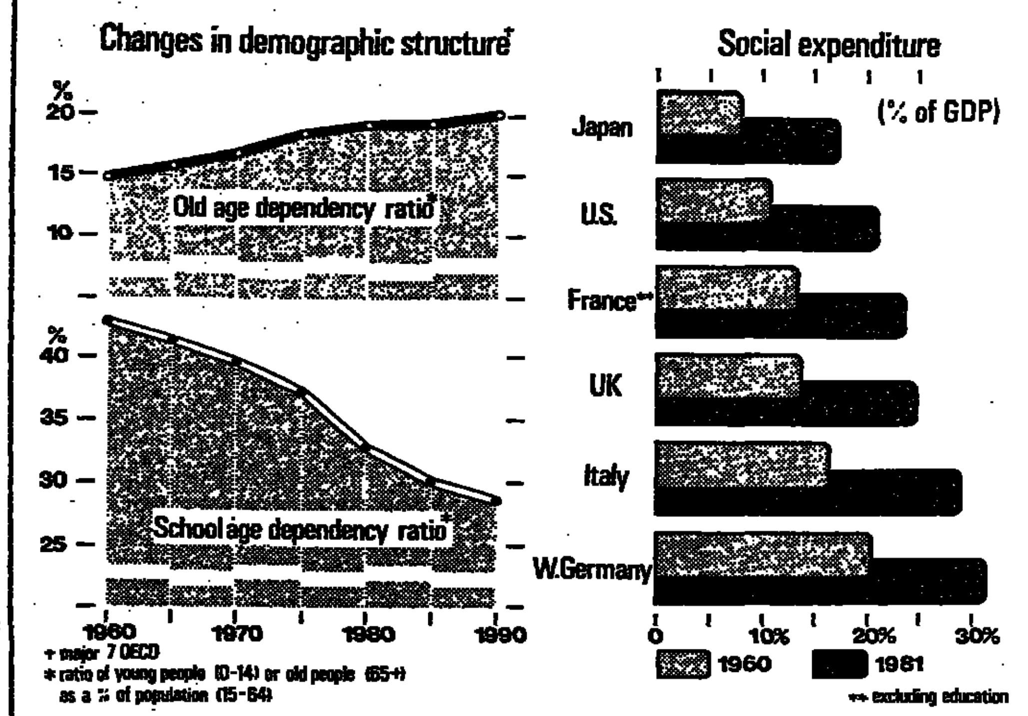
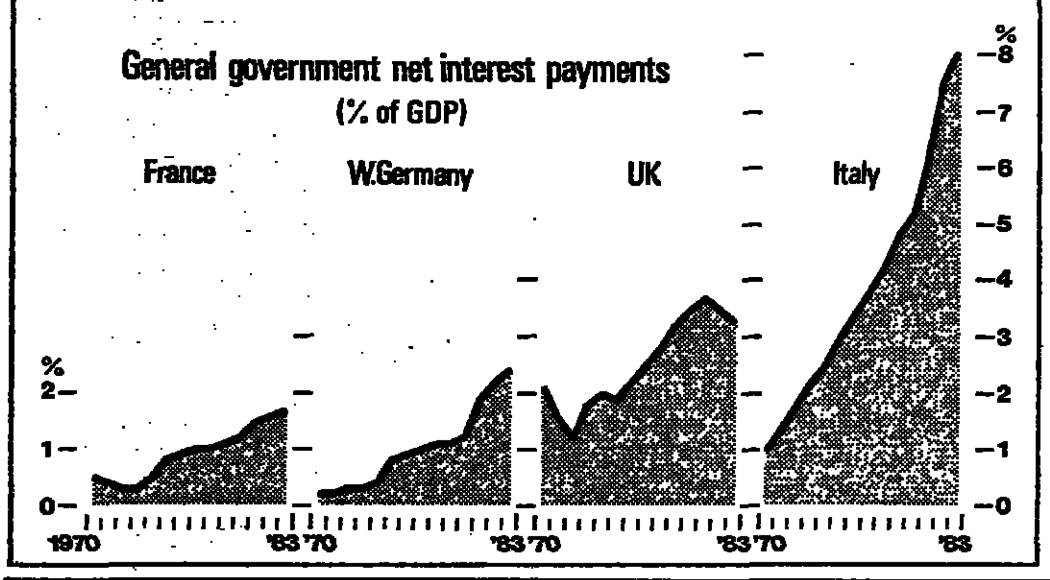
*Trademark of Northern Telecom Limited.

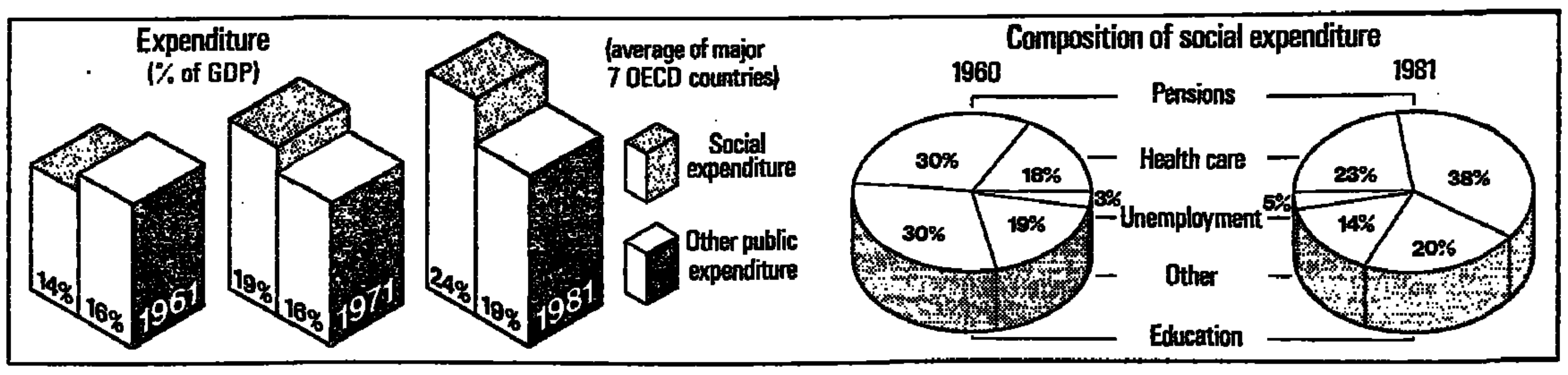
THE LARGEST SUPPLIER OF FULLY DIGITAL SYSTEMS IN THE WORLD.

STATISTICAL TRENDS: PUBLIC EXPENDITURE









Social spending leads the surge

Public expenditure has grown substantially faster than Gross Domestic Product (GDP) in the OECD countries over the last 20 years, led and dominated by the surge in social spending which has risen from 14 per cent of GDP in 1960 to about 25 per cent in 1982.

This has taken place against a background of sustained high economic growth until the early 1970s, giving way to two severe recessions in 1973-75 and 1979-81. The last decade has been marked by periods of high inflation, rising unemployment and recently a prolonged period of high interest rates. All these factors have contributed to the current high deficits and subsequent attempts to cut public spending.

Public expenditure has tended to rise partly as a result of the in-built momentum of existing programmes. An ageing population in many countries has increased demand, especially for health care while indexation of pensions and other benefits means that public expenditure increases at least at the rate of inflation. Technological advances in health and educational equipment, combined with higher expectations also create pressure for growth above inflation.

Between 1960 and 1975, real growth of social expenditure at about 8 per cent a year was double the rate at which real GDP expanded, reflecting the increase in the real level of benefits. From 1975, the pattern changed, with social spending growth halved to 4 per cent a year, just above the growth GDP at 3 per cent.

Pensions now dominate social spending, absorbing 40 per cent of the total.

Although budget deficits persisted throughout the 1970s, if adjustment is made for either debt payments or high unemployment, budgets would have been at least in balance in the period 1977-81.

Higher deficits have been accompanied by expansion in the public sector and increased tax burdens.

The expansion in deficits in 1974-5 came mainly from increased spending but with some rise in tax rates. Reduction in the deficits in 1975-8 was largely due to increases in effective tax rates. Although deficits have expanded since the second oil shock, increases in tax rates have been a significant factor in holding them stable in relation to GDP.

The sustained high interest rates of the past four or five years have become a major problem, leading to a marked increase in government debt interest payments as a percentage of government borrowing requirements and GDP. Net interest payments now account for 2 to 3 per cent of GDP for most European countries (8 per cent for Italy) and 3 to 10 per cent of central government expenditure (12.5 per cent in the U.S.).

The burden of government debt has increased. In the U.S., it was held at 40-45 per cent of GDP in the 1970s, but has now climbed to 50 per cent. Some OECD countries fared worse: Japan's ratio of debt to GDP now stands at 68 per cent, and Italy's at 80 per cent.

GOVERNMENT BUDGETS

Changes in Balances, Taxes and Expenditure as % GDP

Change over period

	1973-75	1975-78	1978-82
Financial balance	−4.2	+1.9	−1.7
Tax ratio	+0.3	+0.7	+1.6
Expenditure ratio	+4.5	−1.2	+3.5

* Major seven. Source: OECD

General Govt. Financial Balances

% GDP at market prices

	1971	1973	1975	1977	1979	1981	1982	1983*
U.S.	−1.7	0.5	−4.2	−0.9	0.6	−1.0	−3.8	−4.0
Japan	1.4	0.5	−2.6	−3.8	−4.8	−4.0	−4.1	−3.4
Germany	−0.1	1.2	−5.7	−2.4	−2.7	−4.0	−3.5	−3.1
France	0.7	0.9	−2.2	−0.8	−0.7	−1.9	−2.6	−3.4
UK	1.5	−2.7	−4.6	−3.2	−3.2	−2.8	−2.0	−2.7
Italy	−7.1	−8.5	−11.7	−8.0	−9.5	−11.7	−11.9	−12.0

* Estimate. Source: OECD

Government Final Consumption Expenditure

% shares

	U.S. 1970	U.S. 1981	Japan 1970	Japan 1981	W. Germany 1970	W. Germany 1980	Italy 1970	Italy 1981
Total	100	100	100	100	100	100	100	100
General Services	10	12	28	27	20	18	23	24
Defence	39	32	10	9	19	14	13	11
Education	24	26	37	38	18	20	26	31
Health & Welfare	7	9	8	9	32	39	27	25
Community Services	3	4	5	7	4	4	3	4
Other	17	17	12	11	7	5	8	5

Source: OECD

Government Debt as % of GDP/GNP*

	1973	1975	1977	1979	1981	1982	1983†
U.S.	43	46	45	41	41	46	48
Japan	17	23	34	48	58	64	68
Germany	19	25	28	31	36	39	42
France	17	17	16	17	18	21	24
UK	71	66	63	56	56	55	56
Italy	61	65	62	68	68	74	81

* General government gross financial liabilities (except France—central govt.).
† Estimates.

Commentary by Our Economics Staff; data analysis by Financial Times Statistics Unit; charts and graphs by Financial Times Design Department

Public Sector Employment

% shares

	Indus. OECD	Total*	Developing countries Africa	Asia	L.America
Central government	34.9	58.7	65.5	43.3	65.0
State and local government	48.6	12.4	5.5	17.7	15.6
General government	83.5	71.1	71.0	61.0	80.6
Non-financial public enterprises	16.5	28.9	29.0	39.0	19.4

* Sample of 31 countries. Source: IMF

Interest Rates*

END OF PERIOD

	U.S.	UK	W. Germany	Japan
1976	4.75	14.38	4.80	6.75
77	6.84	6.50	3.60	5.89
78	10.57	12.50	3.70	4.64
79	13.70	17.00	8.70	8.01
80	17.60	14.75	10.20	9.80
81	12.78	15.69	10.50	6.30
82	8.81	10.50	6.20	6.80
83	9.75	9.31	6.30	6.42

* Bond equivalent yields on major short term money market instruments. Source: Morgan Guaranty

Expenditure and Taxation Trends

(OECD area) % GDP/GNP

	1978	1983*	% change
Receipts			
Direct taxes	13.4	13.8	3.0
Indirect taxes	10.0	10.6	6.0
Social security contributions	9.7	10.9	12.4
Total current receipts	34.6	37.4	8.1
Disbursements			
Govt. consumption	17.7	18.7	5.6
Current transfers	13.2	15.4	16.7
Interest on public debt	2.1	3.8	80.0
Total current spending	34.2	39.4	15.2
Total expenditure	36.8	41.7	13.3

* Estimates. Source: OECD

Demographic Factors

		U.S.	W. Germany	Japan	Ind. market economies
Crude birth rate per 1,000 pop	1960	24	18	17	20
	1981	16	10	13	14
Crude death rate per 1,000 pop	1960	10	12	8	10
	1981	9	12	6	9
Life expectancy at birth (years)	1960	70	70	68	70
	1981	75	73	77	75

Source: World Bank

Central Government Expenditure by Type

Latest year 1981 or 1982 %

	USA	W. Ger	France	UK	Belgium
Current	92.0	92.4	93.5	92.0	90.5
Capital	5.6	6.0	4.1	4.6	8.1
Total spending	97.4	98.8	97.6	96.6	98.6
Lending minus repayments	2.6	1.2	2.4	3.4	1.4
TOTAL	100.0	100.0	100.0	100.0	100.0
of which					
Interest payments	12.5	3.7	3.5	10.3	11.8
Subsidies and curr. transfers	50.3	54.9	68.1	51.8	57.1

Source: IMF

Central Government Employment

Average share %

	Indus. OECD	Total	Developing countries Africa	Asia	America
Administration	5.0	11.0	14.2	5.4	7.1
Education	38.8	28.5	24.7	28.2	34.6
Health	19.2	12.2	10.6	8.8	14.2
Defence	16.0	21.3	16.8	30.3	10.1
Police	6.9	11.7	11.8	8.8	12.1
Agriculture	2.1	6.2	8.3	1.6	6.5
Transport and communication*	10.3	7.8	4.7	8.2	9.3

* Incl. postal service. Source: IMF

OVERSEAS NEWS

Ciba-Geigy hits out at UK Government over Tanderil ban

BY ALAN FRIEDMAN IN MILAN

THE CHAIRMAN of Ciba-Geigy, the Swiss multinational pharmaceuticals and chemicals group, has accused British health authorities of making "a wrong judgment" in removing from the UK market the company's anti-arthritis drug, Tanderil.

In March, the British Committee on Safety of Medicines recommended the withdrawal of the drug.

Speaking during a visit to Italy, Herr *Louis von Planta said* that more than 150m people had used Tanderil and a related Ciba-Geigy drug over the past 20 to 30 years and there had been "only" 1,000 allegedly related cases of death worldwide.

He acknowledged that 1,000 deaths were a lot, but firmly denied British suspicions that there is "any relationship between the product and the deaths." He said the 1,000 users of his company's drugs who had died represented "a relatively small proportion of 150m people over 20 to 30 years."

Herr von Planta said the British authorities had banned Tanderil because "there were proportionally *more cases of death* in the UK than in other markets." The company is appealing against the British decision.

A senior executive of Ciba-Geigy claimed at a press conference that there had been "a scandalous campaign mounted against Tanderil." Sig Sergio Giuliani, chairman of the company's Italian subsidiary, also said the controversy was triggered by the theft in Switzerland last autumn of an internal Ciba-Geigy report on the side effects of Tanderil. These can include a change in blood composition and stomach com*plaints, according to a company* spokesman.

But Herr von Planta said the British investigation of Tanderil had been under way before the report was stolen. He said his preferred solution in the UK would be for Britain to agree to make the drug available "with the kind of restrictions which have already been agreed by other European governments." This, he said, meant allowing doctors to prescribe Tanderil "only where there is no alternative."

"We are still convinced this is a good product, for certain patients the best product," he said.

The pharmaceuticals business last year represented 30 per cent of Ciba-Geigy's group turnover of SwFr 14.7bn ($6.5bn). Chemicals and dyestuffs represented about 15 per cent of group sales.

MORE DEMOCRACY NEED NOT MEAN HIGHER RATES

Prudent spending in Switzerland

BY JOHN WICKS IN ZURICH

BY EARLY evening the school was swinging. Strains from the Back Stage rock group drifted from the Hot Dog disco in the gym to the toasted cheese stand and the saveloy counter in the auditorium. Coffee and cakes were going well amid the stretchers and gas masks in the nuclear shelter. The less serious-minded were settling down upstairs to wine and coffee laced with schnapps. In the music room, a film show was about to start.

The 12-hour party at the Boden schoolhouse was a normal enough celebration by the Swiss taxpayers and electors of Richterswil on Lake Zurich. When parachutists landed in the playground just after lunch, they brought the key to the SwFr 13m (£4.2m) extension to the secondary school.

Under Swiss practice, the council could not have gone ahead with the extension before it had been expressly approved by the local electors. No fewer than two referendums were needed.

Only a month earlier, local councillors had been rather less pleased with their fellow citizens, who had voted against a request for over SwFr 1m to complete a new main sewer. This meant that a ban on new construction had to be imposed on part of a hillside much loved by developers—which was exactly what voters had wanted to happen.

However, even in Switzerland there can be limits to the powers of local voters. The canton of Zurich ordered the sewer to be built anyway for environmental reasons, but it has had to increase its contribution to the costs.

As these instances show, Swiss local taxpayers can decide how much they want the council to spend, and on what. The powers do not work, however, like a crude form of rate capping. As the school and the by-pass show, voters are generally ready to back spending projects. They would resent being told by central government what or not to do.

Similar principles apply in cantonal finances and, to a lesser degree, in those of the Swiss confederation. Here, the best-laid plans can go awry—as when Zurich canton's voters declined to apply to stage the winter Olympics of 1976, or when the national electorate refused a SwFr 200m subscripition to the International Development Association (IDA).

Switzerland is not a parliamentary but a direct democracy where the people are considered sovereign, as a result a great deal depends on referendums.

The 20 cantons and six smaller semi-cantons in the confederation are sovereign units which have yielded remarkably little of their states' rights to the central government in Berne. The 3,029 communes—ranging in size from villages with, say, 20 inhabitants, to the city of Zurich with 366,000—also possess a large degree of autonomy.

Over two-thirds of all local spending goes on public health, the environment, welfare, police and justice and administration costs. Few sectors are sacrosanct, however. Schools, kindergartens and clinics are not necessarily rubber-stamped by the electorate, especially if they are overly expensive or the need for them is not made fully clear.

The communes receive about half their income from the ratepayers and half from subsidies from the cantonal and federal governments. The communes differ from the cantons and the confederation in that their accounts are mostly in the black.

A Swiss individual's total tax bill includes a federal tax, levied at identical rates throughout the country; a cantonal tax which differs from canton to canton; and a local or communal tax. Anyone moving house within Switzerland is well advised to look at the cantonal and local tax rates in the new place chosen: in the capital of the canton of Zug, for example, the total tax levied on an income of SwFr 50,000 (£16,000) is 9.4 per cent; in Friborg, capital of the canton of the same name, it is 16.6 per cent.

The Swiss system sometimes means that worthwhile projects are rejected, especially schemes with which the "silent majority" is out of sympathy, such as youth centres or drug-addiction clinics.

But reasonable proposals at a reasonable price are usually given the green light, and really expensive projects, such as the school extension, can also be approved. Most people think they are getting value for money, and the councils try not to indulge in wild spending sprees.

Rate-cappng, then, is hardly needed. Swiss men and women tend to look very closely at pending programmes and then decide whether they ought to afford them. In Richterswil at least, rate levels have actually stopped rising as one piece of infra-structure after another has been completed. This year, the canton-plus-commune tax rate will actually fall.

Punjab businessmen launch campaign to restore confidence

BY JOHN ELLIOTT, RECENTLY IN CHANDIGARH

THE PUNJAB Government has launched a propaganda campaign to rescue the reputation of the state following the bruising it has suffered during the recent Sikh agitation and violence.

Hindu businessmen in the worst-hit areas of what has been one of India's most productive agricultural and industrial areas say they will be switching future investment to neighbouring states such as Haryana and Uttar Pradesh.

"Whatever I have in progress I'll finish, but I'm not starting anything new. Our people had to leave Pakistan and abandon their investments 25 years ago – one day Hindus might have to leave Punjab," said one businessman.

Representatives of the printing industry say the business atmosphere is neither safe nor congenial.

"The frustration of the business community *is going* to be disastrous," they said. "The flight of capital has begun."

There are widespread reports of Hindu traders, frightened by the Sikh killings, closing down businesses and of Sikh farmers suffering because their Hindu migrant workers have not arrived from other states for the wheat harvest.

Despite the violence of the past two years Punjab has managed to achieve a good industrial and agricultural record and has started to attract foreign industrial investment.

"There is not a single field of economic activity in which we have not achieved record results in the past financial year," says Mr B. C. Pande, the veteran senior civil servant who has been state Governor since last October.

"Agriculture is at an all-time high in wheat and rice production and we have hit industrial records with over 11,000 new small businesses being created in the past year as well as 30 new major industrial units."

Official figures show that the Punjab comes second among India's states in numbers of small businesses which now total 89,000. The state's industrial production rose by 12 per cent last year.

The question is whether this performance can survive the increased violence or whether confidence will slump both in India and abroad.

The broad flat plains of the Punjab and neighbouring Haryana on the border with Pakistan are the centre of India's most successful green revolution. They are farmed mainly by Sikhs, aided by 100,000 migrant Hindu workers from states such as Uttar Pradesh, Rajasthan and Bihar. The revolution started in the early 1960s when high-yield varieties of wheat and improved fertilisers were introduced, and a massive irrigation programme began.

Since then the area of wheat production in Punjab has more than doubled from 3.5m acres to 7.7m acres, with production rising from 1.7m tonnes in 1960-61 to an estimated 9.4 tonnes in 1983-84. The target for 1990 is 10.5m tonnes.

The Punjab now provides 60 per cent of India's wheat reserves and nearly 50 per cent of rice, after catering for its own population's needs, even though it only accounts for about 1.5 per cent of the total land area of India.

A campaign to prove that Punjab manufacturing industry will not suffer permanently has been launched with a half-page newspaper advertisement proclaiming: "Factories working around the clock can meet booming market requirements."

The claim is not quite true, because curfews introduced in a number of towns have affected shift working, as well as slowing down bank clearing of cheques by up to a week and pushing up transport costs.

Punjab businessmen are also finding it hard to raise credit in other Indian states and this is leading to a rundown of stocks. Worst hit has been the textile and light engineering works in Amritsar, the Sikh capital.

The east of the Punjab is suffering the least, and the capital city of Chandigarh has produced bullish reports of increased investment in the electrical and electronics industry by Hindus at home and abroad. Some projects involve tie-ups with foreign companies such as Philips of the Netherlands and Mazda and Hitachi of Japan.

That is debatable. But what is clear is that the escalation of assassinations and general violence has had an immediate effect on business confidence and on the cost of harvesting. It could well have a long-term impact on industrial investment and agricultural production if a solution to quell the unrest is not found soon.

WORLD TRADE NEWS

Capitol Hill dissent over technology export law

By Christian Tyler in London and Nancy Dunne in Washington

DISSENT on Capitol Hill over the shape of new laws to control exports of sensitive U.S. high technology products to the Eastern bloc and other hostile countries has become so deep that officials believe the laws will not be passed this year.

The 1979 Export Administration Act has already lapsed and President Ronald Reagan has invoked emergency powers to continue the licensing system. The system has provoked strong criticism from U.S. companies and some European Governments, particularly over the question of licences for the re-export of U.S. technology which has already been sold to companies overseas.

A Congressional committee has been meeting to try to reconcile competing Bills from the House of Representatives and the Senate and has resolved technical differences but not key issues, a Senatorial aide to the committee said.

The main sticking point according to a U.S. embassy official in London, is the Senate's wish to give the Pentagon a much greater say in reviewing licence applications from U.S. exporters, and from companies overseas who wish to re-export U.S. goods or technology.

The Pentagon's role was recently expanded by President Reagan to include review of exports not only to Warsaw Pact countries and China but to 12 other countries. The new list is believed to include Austria, Sweden and Switzerland as well as Libya and South Africa, following recent cases of illegal traffic in advanced U.S. electronics to the Soviet bloc.

Congress is also divided on the question of how far the President should be able to enforce a trade embargo against countries which have offended U.S. foreign policy. The House Bill would scale down U.S. controls over foreign companies that break embargoes, but the Senate Bill would allow the U.S. to close its market to such companies. This is considered by the Administration, however, to be too extreme a step.

The U.S. Commerce Department is very anxious to see the new legislation passed because, one official said, it would be difficult to win the co-operation of America's trading partners if it appeared the Administration was unable to get a consensus at home about export controls.

Mr Malcolm Baldridge, Secretary for Commerce, recently put the chances of renewing export control law at "somewhat greater than 50-50." But he admitted there was a distinct possibility that the House-Senate conference would fail to agree.

Singapore rail station contract goes to Japan

By Chris Sherwell in Singapore

A JAPANESE consortium has beaten British contender Kier and Lilley for the prestigious contract to build Raffles Place station, in the heart of Singapore's financial district, as part of the island state's S$5bn (£1.7bn) Mass Rapid Transit metro system.

The consortium, Taisei-Shimizu-Marubeni, won on price with a bid of S$70.7m to construct the station and adjacent tunnels. Another Japanese company, Nishimatsu Construction, in a joint venture with a Singapore company, won the contract to build the important City Hall station with a S$77.6m tender.

The awards again underline the strength of Japanese bids for MRT contracts. But in an apparent exception to the trend, the U.S. company of Cubic Weston Data has won the S$48m contract to supply automatic ticketing machines for the transit system. The battle is thought still to be raging to secure important sub-contracts to supply Japan's Kawasaki Heavy Industries, which last month won the major cars contract worth S$580m.

Main British interest here focuses on the propulsion units in which GEC is fighting to prevent the award going to Mitsubishi Electric, and the braking system, where Westinghouse is still hoping to edge out Knorr-Bremse of West Germany. Stones of Britain is believed to have secured the air conditioning contract.

Oman on the line

ERICSSON Radio Systems has won a contract valued at $17m to supply a cellular mobile telephone system for the Sultanate of Oman. Oman is the 12th country to select the Ericsson system, which will be based on the Nordic mobile telephone system pioneered by Denmark, Finland, Norway and Sweden. This system serves 100,000 subscribers in a four-country area twice the size of France.

The Chinese are keen to modernise their antiquated industry. FT correspondents assess the opportunities

A friendly dragon, preferring those who bring gifts

BY CHRISTIAN TYLER, TRADE EDITOR

CHINA'S hunger for Western technology is that of a man who has spent years on a starvation diet. With a technology base between 10 and 50 years behind the times, the Chinese see their open door trading policy with the developed countries as the means to a single end—modernisation of their own industries.

"Every conversation we had came down to one thing, joint ventures," says Mr Bob Eade, director of commercial technology for Thorn-EMI, who has just returned from a British mission. "They didn't really mention anything else."

According to U.S. and European executives, China's aim is to buy from abroad the minimum necessary to enable it to become a self-sufficient economic superpower of the 21st century, and to acquire technology without political commitment.

Hungry though she may be, China will continue to dictate the pace — and as far as possible the price — at which advanced techniques are acquired. Some foreign investors licensing their technology or supplying hardware, have already discovered that a contract with one state enterprise can mean proliferation of the technology throughout the country.

"The Chinese understand about paying for goods," Mr Eade said. "They don't yet understand about paying for services. They will do what they can to get technical information for as little as possible." China has substantial foreign exchange reserves — of well over $14bn — but is conserving them jealously: the cost of ventures with foreigners has usually to be covered by export of the goods produced.

The potential value of the nuclear pact signed with the U.S. is as yet unclear. Mr Nathaniel Woodson, general manager of Westinghouse Electric's nuclear operations division, said: "China has an urgent need for power plant, but the fundamental decision is one of economic growth strategy," he said. If the Chinese built the 10-13 units they had in mind, the prospects were good.

Apart from the Daya Bay nuclear power station in Guangdong province, which Framatome of France and GEC of Britain are expected to build, plans have been confirmed for a civil reactor in Zhejiang province and two in the North and North-east to be built by the end of the decade.

More than half the direct foreign investment so far has been attracted by the search for commercial quantities of oil under the South China Sea and Yellow Sea. Western oil majors, working on five to seven year contracts, have brought telecommunications and other service companies in their wake. The lure of oil is obvious, despite the risks, and may override the acknowledged difficulties of doing business with the Chinese.

The firmest prospects for long-term Western participation are in China's expanding coal industry. Coal accounts for 70 per cent of energy needs and capacity is planned to double to 1.2bn tonnes a year by the end of the century.

In the manufacturing sector, foreign companies have become much readier over the past 12 months to do business on China's terms, and the Chinese themselves have removed some obstacles. Hundreds of licensing agreements have been signed, and the number of equity joint ventures has doubled to 188.

U.S., British, German and French companies are proving generally bolder than the Japanese, whose reluctance to transfer their technology has been openly criticised by China's leaders.

It remains to be seen how profitable the latest wave of licensing and equity deals will be. Many foreign companies are consenting to tough terms — on royalties, for example—because that is the only way they can do business in China.

The accent is firmly on capital goods, telecommunications and industrially useful products, although the Japanese are involved in manufacturing television sets, and the Americans in cigarettes for a hard-smoking populace.

And yet, for all the interest stirred up by Reagan's *rapprochement* with Communist China, for all the rhetoric about China being the last great frontier for commerce, companies are less euphoric than the politicians.

"I wouldn't say there is a mad rush," one said. "The tempo of development is being set by the Chinese entirely."

Deng (above left) welcomes Reagan . . . on his terms.

RECENT JOINT VENTURES WITH CHINA

Foreign partner	Product	Joint investment* ($)
Bechtel (U.S.)	energy, engineering	3m
R. J. Reynolds (U.S.)	cigarettes	25m
McDonnell Douglas (U.S.)	25 airliners	575m**
John Deere (U.S.)	tractors	n.a.
Pilkington (UK)	flat glass	130m
American Motors (U.S.)	four-wheel-drive trucks	51m
Otsuka Pharmaceutical (Japan)	drugs	6.6m
Bell Telephone (Belgium)	communications	20m
Volkswagen (W. Germany)	passenger cars and engines	n.a.
Remy Martin (France)	wine	533,000
Keyuan Yo. (HK)	watches	8.5m
Cable & Wireless (UK)	telecommunications	2.7m
Astra et al (Sweden)	pharmaceuticals	12m
E-S Pacific Development (HK)	Great Wall hotel	72m

* Current prices. ** Estimate.

Source: China Business Review, FT

Why business is sceptical

BY ALAIN CASS IN LONDON AND MARK BAKER IN PEKING

DOING BUSINESS with China has never been for the faint-hearted. When news of the nuclear co-operation agreement with the U.S., signed by President Ronald Reagan in Peking during his recent visit, was followed by suggestions that this could mean $20bn in orders for the West, old China hands cringed.

A member of the National Council for U.S.-China Trade in Washington said: "I was frankly astonished that American officials were encouraging the notion. It's irresponsible." A seasoned European businessman commented: "Doing business with China is long and hard. And you usually end up with a deal several multiples smaller than you might have hoped for." So it might prove, they both added, with Shina's ambitious plans to develop an indigenous nuclear power industry by the turn of the century.

Deng Xiaoping, the Chinese leader who will be 80 this year, might be forgiven for thinking them both uncharitable, given his efforts to modernise China's backward and largely rural economy since coming to power in 1978.

He would undoubtedly point to the progress China has made in streamlining its inefficient bureaucracy; to the raft of laws on investment, taxation and patent designed to protect the businessman and already either completed or being drafted and to his so far successful political battle with insular left-wingers in the Party to open China's vast market to outside influence.

President Reagan's visit followed hard on the heels of that of Mr Yasuhiro Nakasone, the Japanese Prime Minister. He went to Peking earlier this year bearing a $2.1bn low-interest loan pledge at a time when Sino-Japanese trade had gone through the roof. Japan's exports to China surged 40 per cent in 1983 over the previous year while total trade reached the $10bn mark.

The China which the two leaders saw is vastly different from the one President Richard Nixon visited nearly a decade ago. Gone is the dogmatic ideology of Mao Tse-tung, under which the state dictated which factory made what product for how long and at what price it was sold, or not sold, as was more often the case.

This has given way to a coherent strategy, Deng would argue, to turn China into a potent industrial power with growing export potential, which will be able to compete with its more advanced trading partners by the turn of the century.

The cherished Maoist co-operative has gone. Peasants sell their goods on the open market, some earning 20 times the average annual per capita income. Factories are being told to make profits, and there is even talk of closing down inefficient ones, though no evidence that this has actually happened.

The bureaucracy is being shaken up and the vice-like grip on foreign trade exercised in the capital is being steadily loosened. Last month 14 inland cities were given approval to establish their own foreign trade bodies and Special Economic Zones like those near the Hong Kong border, in a bid to attract foreign investment. A businessman can now deal directly, without going through Peking, and decision-making is becoming more sophisticated, "*by leaps and bounds*," according to some long-standing observers.

Others would sound a note of deep caution. In China, politics and trade are still inextricably linked. The fall in U.S. exports to China, from $3.59bn in 1981 to $2.163bn last year, for instance, was partly due to a bitter row over U.S. textile quotas and continuing disagreement over U.S. backing for Taiwan.

By the end of last year U.S. companies had pledged nearly $700m in investment to China, but most of it is in the offshore oil sector. Less than $85m is invested elsewhere and the U.S. ranks second behind Hong Kong in the number of joint ventures established with China.

The near cancellation of the huge Baoshan steel complex near Shanghai in 1978/79 has left a bitter taste in the mouth of Japanese businessmen who were involved in the project. Japan ranks sixth with $19.7m in foreign equity investment.

There is also scepticism about the effectiveness of business laws.

Observers who have watched the convulsions in China's attempts to come to terms with modernisation and Western influence remain unconvinced that Deng's policies will necessarily outlast him. The "10 lost years" of the Cultural Revolution may have faded from many minds, but it cannot be ruled out that such a dislocation could happen again.

Peking bid to expand weapons sales

CHINA is expected to use a defence exhibition beginning in Canberra today as a way of trying to boost its international sales of light arms, ammunition and submarines and to explore contacts with Australian military equipment manufactures on possible cooperation, Mark Baker reports from Peking.

Australian officials said the Chinese were interested in studying the work of Australian manufacturers and discussing possible transfers of technology and other co-operation. China has been a nuclear power for 20 years and is now developing advanced missiles.

India hopes for rule changes at EIB

BY JOHN ELLIOTT IN NEW DELHI

THE EUROPEAN Investment Bank is considering making its first major loans to a country outside the European Community as a result of pressure from the Indian Government. Delhi has asked the bank to provide $55m to help develop the Panna oil fields in the centre of the country and $15m for a seismic survey vessel for India's Oil and Natural Gas Commission.

Mr Ivor Richard, the EEC Social Affairs Commissioner, has been leading an EEC trade delegation to India and said yesterday he was in favour of putting a new interpretation on the bank's rules to allow it to provide such loans.

The Indo-EEC joint commission also decided to start a new programme of technology transfers to India and named three specific areas — solar and bio-gas energy, machine tools and health care, particularly involving leprosy.

India complained bitterly about its failure to build up exports to the EEC but was told that while efforts would be made to improve contacts, India's poor workmanship was a major problem.

Indian exports to the EEC have averaged about $1.5bn in the past three years but imports were worth $3.1bn. The UK takes up about one-third of both the imports and exports.

India failed at the weekend to persuade Mr Yasuhiro Nakasone, the Japanese Prime Minister, who was visiting New Delhi to make specific commitments of aid for projects and to promise immediate support for India's claim for $1bn loans from the Asian Development Bank.

Despite considerable political and official pressure, Mr Nakasone would say only that Japanese aid for 1984-85 would exceed the Y34.7bn (£109m) allocated this year. Projects helped could include a thermal power station, a fertiliser plant and possibly a gas pipeline.

● India has decided not to take up the Soviet Union's offer of a nuclear power station unless it runs into difficulties with its plan to build 10,000 Mw of nuclear capability itself by the year 2,000, according to Dr Raja Ramanna, chairman of India's Atomic Energy Commission.

India has had problems with the nuclear plants it has built with U.S. and Canadian help and has been under pressure from Moscow since 1979 to accept a 1,000 Mw enriched uranium station. It hopes nuclear power will satisfy 10 per cent of its energy needs by the end of the century.

SHIPPING REPORT

Higher freight rates push up secondhand sales

BY ANDREW FISHER, SHIPPING CORRESPONDENT

THE SECONDHAND ship market livened up last week with the upturn in freight rates so far this year prompting many shipowners to buy tonnage while it is still fairly cheap.

Bulk carriers were particularly in demand, reported Galbraith's, with Greek buyers making most of the running. The 13-year-old Ogden Amazon went to Greeks for $5.5m; the ship is 61,214 deadweight tons, able to go through the Panama Canal.

A sale of the similarly-sized Karmila, six years younger, is also being arranged to Greeks. The price is around $9m, a rise of some 5 per cent higher than the price obtained a month ago for a nearly identical sister vessel.

Freight rates for bulk carriers moved up in the Far East last week and were stable on the Atlantic. Large vessels have benefitted from increased iron ore trade, and grain activity has also increased.

In the tanker market, the scene in the Gulf was quieter after recent tension. E.A. Gibson said few large vessels were fixed from there, but rates picked up from Indonesia and the Caribbean. Several big tankers were sold on secondhand last month, including the 386,000 dwt Bonn by Hapag-Lloyd of West Germany to Thenamaris of Greece.

Altogether, said Lambert Brothers, six VLCCs and ULCCs (very large and ultra large crude carriers) were sold in April. Prices stayed around $7.5m for a five-year-old tanker of 250,000 dwt and $5m for one of 10 years old.

World Economic Indicators

INDUSTRIAL PRODUCTION (1975=100)

					% change over previous year
	Mar '84	Feb '84	Jan '84	Mar '83	
U.S.*	160.7	160.0	158.4	140.0	+14.8
	Feb '84	Jan '84	Dec '83	Feb '83	
Japan†	113.9	110.9	110.1	100.3	+13.6
UK†	102.8	104.5	104.0	99.9	+ 2.9
W. Germany	118.5	119.0	118.4	109.4	+ 8.3
France	114.8	116.0	117.3	112.3	+ 2.2
Italy	115.5	117.6	119.8	116.0	− 0.4
	Jan '84	Dec '83	Nov '83	Jan 83	
Belgium	115.4	114.2	118.0	113.1	+ 2.0
Netherlands	112.1	109.7	109.2	102.3	+ 9.6

* 1967=100 † 1980=100

Source: (except U.S., UK, Japan): Eurostat

UK NEWS

Lloyds Bank criticises corporation tax policy

BY OUR FINANCIAL STAFF

LLOYDS BANK, one of the big four UK clearing banks, today accuses *the Thatcher Government of* pursuing a corporation tax policy inspired by the Labour Party.

In its monthly bulletin for May, the bank says that the recent budget proposals – which aim for radical changes in company taxation – are based largely on Labour's 1982 economic programme and are being implemented even though the previous Conservative Government *pointed out their drawbacks in a* discussion paper published the same year.

"The impression given by the paper that corporation tax reform had been given a decent burial is now shown to have been false," writes Mr Christopher Johnson, the bank's economic adviser.

The bulletin says that there are three defects in the present corporation tax system, and doubts that *the Budget measures will really* correct them.

One is that it is based on historic cost rather than inflation-adjusted accounts. Generous tax allowances which compensated companies for inflation are now to be cut right back, even though some companies still face steep rises in costs despite the fall in inflation.

Another is that the present system *is a poor revenue raiser, yielding* only 5 per cent of total government tax revenues. The Chancellor promised that his changes would lower companies' tax bills, but Lloyds says that if they are successful, they may have the opposite effect by giving companies incentives to make bigger profits, which will then be taxed. In that case the Government may have to cut corporation tax even more.

Thirdly, capital allowances have encouraged wasteful investment. By abolishing them, the Chancellor will improve rates of return but will not cure the failings which produced low rates of return in the first place, it says.

Of the changes as a whole, Lloyds says they "will not in themselves be a major determinant of sound investment decisions, but they will avoid some of the unsound decisions that the present system has encouraged."

Lloyds, in common with other big British banks, faces a huge tax payment as a result of the Chancellor's decision to phase out capital allowances, and this will have a profound effect on its leasing business.

Warning by Paisley on joint Irish authorities

By Brendan Keenan in Dublin

THE REV IAN PAISLEY, leader of the Democratic Unionist Party in Northern Ireland, warned yesterday of "all-out resistance" by Ulster loyalists if the British Government considered any form of joint authority with the Irish Republic over Northern Ireland.

Mr Paisley was responding to reports, which have not been denied, that the Minister for Northern Ireland, *Mr James Prior, may be* considering a new political initiative.

Mr Prior is expected to invite Ulster political parties for talks in the next few weeks to hear their opinions in the wake of last week's talks by the New Ireland Forum on possible political developments in Ireland.

Local political leaders do not expect Mr Prior to make his own views known before the end of next month, after the elections to the European Parliament on June 14. Mr Prior would not wish the forum's report, or the Government's response to it, to become an election issue.

Nevertheless, there is some surprise in both Belfast and Dublin at the urgency with which Mr Prior seems to be treating the situation. He may not remain as Ulster minister much past the autumn, when he will have served three years in that office.

Mr John Hume, leader of the Social Democratic and Labour Party which represents most Ulster Roman Catholics, said yesterday that he was encouraged by the response to the forum. He believed it would provide an opportunity to reopen political dialogue

Unionists, on the other hand, have been alarmed at the suggestion that Mr Prior might propose that areas such as agriculture, tourism and economic development in border areas might come under a joint authority with the Irish Republic.

They would be even more alarmed at the suggestion that these bodies and a joint advisory body on security should report to an Anglo-Irish institution, composed of elected representatives from London, Belfast and Dublin.

Mr Paisley said Unionists would *resist a system under which they* remained part of the UK but would be ruled and governed in many vital areas by Dublin.

Unions hit by shifts in membership

By Philip Bassett

SHIFTS in the location of trade union membership have been used as a weapon against unions, according to a new study.

The study, by Ms Doreen Massey, Professor of Geography at the Open University, and Mr Nicholas Miles, also of the Open University, is an analysis of how changes in industry, in production and in unions have affected the areas in which unions are strongest and most numerous.

The study gives as an example the changing balance of membership in the Amalgamated Union of *Engineering Workers. In 1951, half* the union's members were in its old heartland areas of London, Lancashire, Birmingham–Coventry, South Wales and Glasgow–Paisley. The union then had 3,500 more members in these areas than in the rest of the country.

By 1979, however, these areas had 120,000 fewer members than in what had once been the union's periphery.

Differential patterns of decline since then have reinforced this shift.

Alliance seeks out disillusioned Tories

BY PETER RIDDELL, POLITICAL EDITOR

DISILLUSIONED former Conservative voters who dislike the Prime Minister's style of government will be the main target of the Social Democratic Party – Liberal Alliance in the campaign for the European Assembly elections on June 14.

This was indicated by both Mr David Steel, the Liberal leader, and Dr David Owen, the SDP leader, when they addressed a meeting of *the bulk of the Alliance's 78 Euro-*candidates in London yesterday.

The strategy was discussed later by the joint campaign committee of the two parties. It is based on the leadership's analysis of the three parliamentary by-elections and local elections last Thursday when the Alliance made gains, largely at the Conservatives' expense.

Mr Steel said the elections showed many ex-Tories were beginning to rebel against "the arrogant and doctrinaire style of this Government."

"You will find an echo of that in *the Euro-campaign," he added,* urging the candidates "to go as much for the style of the government as for content."

Similarly Dr Owen said people were fed up with Mrs Thatcher being "the nation's nanny, the only one who never makes an error and *is always right."*

Dr Owen said later the Alliance would argue in the campaign that Mrs Thatcher's style of government was damaging British interests by making it more difficult to bargain and to reach agreements in the EEC.

He said Mrs Thatcher believed no other Prime Minister in the EEC had an interest to defend on behalf of his country. "This makes her a very bad bargainer on Britain's *behalf."*

The Alliance leaders believe there is a sizeable pool of former Tories willing to respond to both these criticisms of Mrs Thatcher's *style and an internationalist* appeal, based on working closely with the rest of the EEC.

The Alliance parties will formally launch their campaign next Mon*day and will follow this with a series* of "ask the Alliance" rallies around the country, featuring the two leaders.

What is an office?

UK NEWS

Call to end EEC trade barriers

BY DAVID HELLIER

EUROPEAN industrialists have called for a concerted effort to reverse high unemployment in Europe and restore its prosperity.

Unice, the association of European federations of industry, says in a leaflet published today that this should be done by dismantling the trade barriers that continue to obstruct free trade within the European Community.

Sig Guido Carli, president of Unice, says that the recent economic and institutional difficulties in Europe have considerably weakened the capacity of member states to act together in dealing with what he calls "the third industrial revolution."

"Today our economies are so interlinked that achieving a single common market, and using it to restore the economy and employment is the only course open to us. Further delay would be like halting in the middle of a ford with the water clearly rising," he says.

Among the priorities discussed in the leaflet, which is being sent to all candidates taking part in the European parliamentary elections on June 14, are:

- The removal of trade barriers within the EEC,
- The harmonisation of specifications and regulations on a Community basis,
- Closer co-operation, particularly in research and development between countries within the Community,
- The adoption of a common external trade policy that will allow the Community to use its weight to resist growing protectionism,
- A new approach to vocational training,
- The reduction of high unemployment through structural change and innovation.

Sir Campbell Fraser, president of the Confederation of British Industry, says in a forward to the leaflet: "The EEC has been at sixes and sevens, but it may now be on the verge of solving several of its major problems. We must all hope that it is, for three-fifths of British trade lies in Europe and it is vital to get the framework right, if this country is to prosper.

He denied that there were divisions within the European business community. "There is a wide consensus among the industries of Europe on what is required.

"That is why before the coming election we at the CBI have joined with our sister federations in other member states to draw attention to the urgent needs of European business which is the Community's wealth creator," he said.

Our Belfast Correspondent writes: The recovery by industry and commerce in Northern Ireland may now be causing a rise in employment, according to a bi-monthly survey by the CBI.

The results of the April survey published yesterday confirm a continuing improvement in demand at home and abroad. Business confidence also continued to mount.

Mr Barry Gibson, the CBI's assistant director in the province, said it was heartening to see that the loss of jobs had stabilised and that there may have been a slight rise in the numbers employed by the companies surveyed.

There was growing evidence that the recovery was gathering pace and spreading more broadly throughout the local economy, he said. However, there was a long way to go before there could be a significant impact on unemployment.

Companies employing more than 82,000 people in manufacturing, commerce, banking and some public sector industries were covered by the survey.

'Misunderstanding' about EEC rule

BY BRIAN GROOM, LABOUR STAFF

EEC LEGISLATION on worker-directors may not be quite as remote a prospect as much of British industry believes it to be, according to a report by Incomes Data Services, the independent research group.

There is a general misunderstanding, it says, that the draft fifth directive on employee representation can become law only if it gets the unanimous approval of the Council of Ministers.

While this rule applies to other directives on industrial relations, however, a technicality of EEC procedure means that the fifth directive needs only a "qualified majority".

The fifth directive, which would apply to all public limited companies with more than 1,000 employees has been watered down since it was proposed in 1972. It no longer insists on worker-directors being compulsory, but offers other options enabling employee representatives to influence decisions

The British Government, with the support of bodies like the Confederation of British Industry and the Institute of Directors, remains strongly opposed to it. The UK has only 10 votes in the Council of Ministers, however, and under the rules for a "qualified majority", 19 are needed to block the directive.

The research group says that for the moment there is enough opposition throughout Europe to block it if countries like Italy (10 votes), Belgium (five) and Luxembourg (two) side with the UK. Political changes – such as a Labour victory at the next British general election – could alter the picture.

Although the directive is at the final stage before a decision, in the present political climate a vote may be delayed for five or six years and it would need to be toned down further to win approval.

Commercial vehicle sales near record

BY JOHN GRIFFITHS

THE RECOVERY in UK commercial vehicle sales continued in April, bringing the total so far this year to the second highest level ever.

The 102,023 vehicles sold in the first four months represented a rise of 7.5 per cent over the corresponding period last year, and were just a fraction below the peak of 102,239 recorded in the first four months of 1980.

Society of Motor Manufacturers and Traders statistics showed the improvement in April concentrated in two sectors: medium and heavy vans, sales of which were up 16.3 per cent compared with a year earlier at 12,382 (10,627) and trucks over 3.5 tonnes, up 17.8 per cent at 4,529 (3,846).

Sales of light vans, based on cars, were almost static in April at 7,631 (7,623), while sales of utility four wheel drive vehicles were down slightly at 1,011 (1,057).

Year to date sales of light vans were 32,471 (31,451); medium and heavy vans 44,469 (40,648), trucks over 3.5 tonnes 19,256 (16,742) and four wheel drives 4,306 (4,433).

Despite the improvement in heavy truck sales, the recovery in this sector is still from a very low base.

Engineering output rises 4%

OUTPUT OF the combined UK engineering industries rose 4 per cent in the three months to the end of February compared with the previous quarter.

The increase in the mechanical engineering industries was broadly based, coming from 15 of the 25 sectors. Only the chemical plant sector suffered a major decline, down 15 per cent from the previous three months.

In the instrument and electrical group, the electronic data processing equipment industry led with a 15 per cent rise and 12 of the 19 other sectors advanced.

The index of production for the combined engineering industries was 99 in the latest three month period compared with a low of 92 in the second quarter of 1983 and a high of 105 in 1979.

- THE CONDITION of London's housing stock is considerably poorer than the national average, about one quarter being either sub standard or in serious disrepair, according to an analysis by the Greater London Council of the investment programme submitted by the London boroughs to the government. It expresses the concern of inner and outer London boroughs about their inability to halt the deterioration in the housing stock and meet housing needs, due to lack of resources.

- TRAVELLERS may soon be able to watch television in the back of British taxis. A scheme should be in operation in London within two years following experimental in-cab video services being launched in Birmingham and Manchester this summer.

- INCREASINGLY sophisticated accounting methods within the National Health Service should lead to much greater competition within the NHS and more efficient use of resources, according to the Office of Health Economics.

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Health Club
Hotel Bedroom
Client's Factory
Airport Lounge
Tennis Club
Film Set
Home
Shop
Farm
Studio
Next Door
...etc.

An office is where people work.

It can be light and pleasant, dark and stuffy, high-up in the air or hidden in the basement.

It can be long and thin, or large and square.

In the centre of town, or in the outskirts.

Etcetera, etcetera, etcetera.

But whatever it can be, 'the office' is still one particular room in one particular building; four walls, a window and a desk, basically.

Most of us are used to working from one place all day. Some of us even quite like it. But is it because we have to?

A lot of business men and women are still missing good business opportunities by being unable to take themselves and their work out of the confines of those four walls. So far there hasn't been much that they, or even technology, could do about it.

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It's very simple. An office is a place where people work; why not make it as many different places as possible? Why not give people the freedom and the ability to work anywhere they want to?

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Corporate planning . . . on the patio.

Quarterly financial breakdowns . . . at the airport.

Report writing . . . in your hotel bedroom.

Michael Donne looks behind the clash between BA and BCal

Civil aviation in need of quick decisions

BEHIND the increasingly bitter battle of words between Lord King, chairman of state-owned British Airways, and Sir Adam Thomson, chairman of the independent British Caledonian Airways, lies their growing concern – and that of many others in the air transport industry – about the whole future of UK civil aviation policy.

Apart from the privatisation of BA, set for next spring, and its desire to beat off what it regards as a "smash and grab raid" by BCal on many of its prize routes, many other issues require urgent solutions.

Nearly everything in UK civil aviation is in the melting pot. Other major issues outstanding include:

● Generating more competition on UK domestic routes by relaxing controls on both route licensing and fares,

● Persuading European governments also to accept cheaper fares and more liberal licensing policies, so as to increase international competition,

● Deciding whether or not to privatise the British Airports Authority and if so how – either as an entity or by breaking it up.

● Settling the 30-year-old issue of London's airports by developing Stansted or building a fifth terminal at Heathrow.

● Deciding whether to keep the planned limit of 275,000 aircraft movements a year at Heathrow from 1985 when Terminal Four opens, even though by then those will have already risen to nearly 300,000.

● Deciding whether or not to develop regional airports substantially, by allowing them to spend more on expansion programmes.

Each of these issues in turn will generate other problems. The airports situation is especially difficult. If the Government insists, for environmental reasons, on keeping the planned limit of 275,000 aircraft movements a year at Heathrow from the end of 1985, many airlines now expanding there will be forced to move to either Gatwick or Stansted.

Moreover, maintaining that limit will rule out any decision to develop a fifth terminal. If the limit is breached even before Terminal Four opens, how could all the additional passengers and aircraft movements generated by any fifth terminal be handled?

Many airlines want to know now precisely what Government attitudes will be, both about this, and about the future of regional airports.

Most immediate concern, however, is over the issue of greater competition, and with it the question of transferring routes from BA to BCal and other independent airlines.

BCal insists that such transfers represent the core of the entire reappraisal of air transport policy. It argues that a privatised BA left with its current route network would be so dominant as to threaten the long-term future, and possibly even the survival of the independent air transport sector.

Only a few other independent airlines have publicly supported BCal in this battle – some privately share BA's view that such transfers are designed to bolster BCal alone, rather than the independent sector as a whole.

It is the extent of what BA calls the suggested "dismemberment" that frightens Lord King and his board. The details have not been published, but BCal is understood to have suggested to the Civil Aviation Authority and the Transport Secretary, Mr Nicholas Ridley, that as many as 40 routes could be transferred, involving nearly 4m passengers a year.

This would represent about a quarter of BA's traffic, and would reduce its share of current UK air transport capacity from 83 per cent to about 60 per cent.

The Civil Aviation Authority, which is studying the matter as part of the policy review it is conducting for the Government, will submit its views to Mr Ridley in mid-July.

Whatever its recommendations, Mr Ridley will face a problem. If he endorses route transfers, he will be accused of "carving up" BA to favour the independents. He will also be devaluing BA on the eve of privatisation.

On the other hand, if Mr Ridley rejects route transfers, he will be accused of leaving the independent airlines in the same "second-class citizen" status they have at present, thereby making nonsense of the policy review.

What everyone in the industry is anxious to avoid is another long wait while the CAA's recommendations on a new civil aviation policy are digested in Whitehall before being translated into firm government decisions.

The industry has waited for nearly 30 years for the controversial issue of London's airports to be settled.

Bookings still high at People Express

BY OUR AEROSPACE CORRESPONDENT

PEOPLE EXPRESS, the low-fare airline which flies between Gatwick Airport, London, and Newark, New Jersey, continues to experience high demand for seats.

In the first four months of this year, the load factor (the percentage of available seats filled) was 88.4 per cent. Forward bookings are high, and the airline is confident of a record summer, despite the impending competition on the same route from the newly created Virgin Atlantic Airlines of the UK, which starts services in late June.

People Express also has an extensive network of routes inside the U.S. and during the first four months of this year carried a total of over 2.5m passengers throughout its entire network, a gain of 120 per cent over the comparable four months of 1983.

For the entire 12 months to the end of April 1984, the airline carried on its entire network a total of 6.76m passengers.

● Arrow Air, the U.S. scheduled airline which flies between Gatwick and Tampa, Florida, has complained to the U.S. Civil Aeronautics Board, alleging actions designed to drive it off the Florida-UK air route by British Airways, Pan American and Air Florida.

Arrow Air says that the other three airlines, flying between the UK and Miami, Florida, introduced fares on that route that were the same as those on Arrow's route to Tampa, but below the levels officially approved for London-Miami.

The effect, says Arrow, is that without government approval the other three airlines have indulged in "predatory conduct"

UK seeks more open air travel policies

By Our Aerospace Correspondent

THE UK Civil Aviation Authority (CAA), which is responsible for route licensing and the fares policies of UK airlines, intends to fight for more liberal aviation policies by European governments.

Mr Ray Colegate, director of economic regulation in the CAA told a meeting of the International Civil Airports Association in Jersey that the CAA would like to see faster progress in Europe on the greater liberalisation of air transport.

Areas in which the authority believed much more progress could be made included regional air services between the UK and continental Europe, with greater freedom being given to individual airlines to set their fares as they saw fit.

Another method of introducing more international competition might be to give airlines greater freedom to start new routes.

"We would like to see the present tariffs (fares) approval system broadened so that airlines could propose tariffs independently of each other, and to have them accepted by both states concerned (that is, the countries served by the airline), but with a right to challenge them where they are not reasonably related to costs."

Mr Colegate said that the UK, through the CAA, had consistently sought greater freedom for the airlines in Western Europe, and was keen to push this process further. "But it has to be acknowledged that the rate of such progress has so far been disappointingly slow.

"Patient negotiation and a willingness to experiment have achieved substantial progress," he said. "The authority will continue to proceed gradually and will aim to foster the interests of both the industry and its users through continuity and progressive evolution."

Mr Colegate said that the EEC itself was on the verge of issuing a new memorandum on greater competition in air transport, that would involve a complex package of measures designed to make airlines increase their efficiency and improve the quality of service they offered to customers.

"The main policy guidelines to be applied will probably reflect an evolutionary approach, restricting action to intra-Community services."

The Commission is expected to propose new measures intended to modify member-states' air services agreements and tariffs approval system, and to attempt again to apply, on a step-by-step basis, the (Community) rules on competition."

● An angry "hands off" warning over possible government plans to privatise Scotland's eight Highlands and Islands airports was issued yesterday by Labour Member of Parliament, Mr George Foulkes.

He urged that the Government should now abandon its plans.

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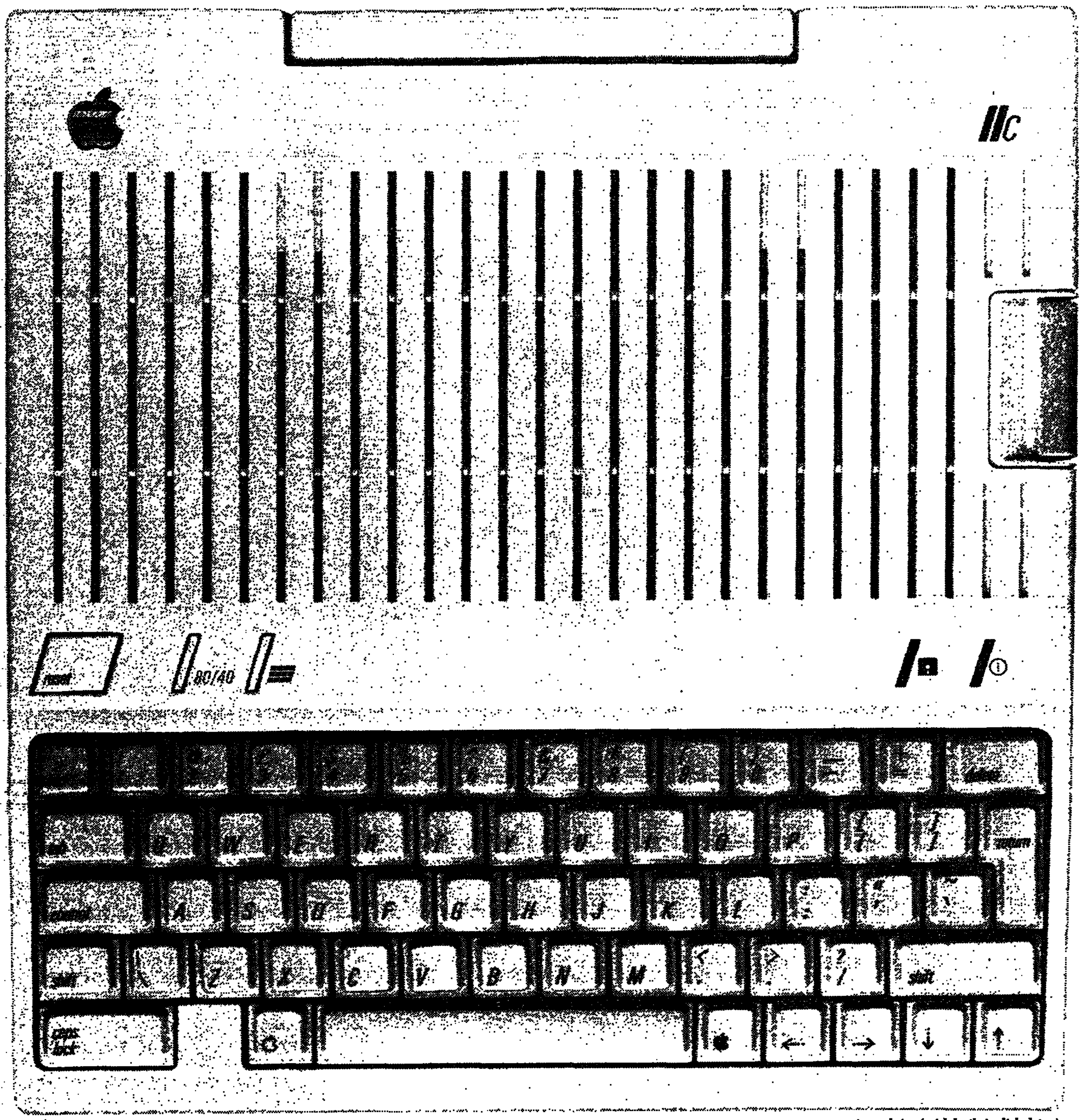
The new Apple IIc



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UK NEWS

REPORT RECOMMENDS EXTENSIVE CHANGES IN UK COMMUNICATIONS INDUSTRY

BBC 'should be commercialised'

BY JASON CRISP

THE BBC should be broken up and largely run on a commercial basis according to a report on communications policy published by the Adam Smith Institute, a privately financed study group.

The suggestion is one of many radical proposals for the wholesale deregulation of communications in Britain. The institute also calls for much less government interference in broadcasting, cable television and radio communication. It recommends the ending of the Post Office letter monopoly, the break-up of British Telecom and the further reduction of its monopolies and less government regulation of cable TV.

The most dramatic proposals, however, are for major changes in the BBC, including the commercialisation of most of its activities, which it says would not greatly alter its character.

"Beneath its facade of commercial virginity, the BBC's programmes are in fact studded with advertising plugs. The chat show with a guest who just happens to have recently brought out a book, or the broadcasting of a sponsored concert or cricket match are just two examples of how advertising already exists."

The institute says the monolithic BBC should be improved by devolving its constituent parts into separate self-financing units, operating under the guidance of the board of governors. It proposes that:

- BBC1, BBC2 and BBC Breakfast Time should be kept intact as one unit. BBC1 and Breakfast Time would be financed by advertising. BBC2 would be financed by a mixture of advertising, sponsorship, subscription and subsidy from BBC1 and Breakfast Time revenues.
- BBC TV News should be formed into a separate entity financed by a levy on other BBC channels, funds from other TV stations such as cable and satellite which wished to subscribe to the service. "This would preserve the integrity of the BBC News services, which have a global reputation for quality," says the report.
- Radio 1 and 2 should function as separate *national* commercial services funded by advertising. The report argues that the stations are popular and easily supported by advertising revenue. "Given the amount of own-product advertising at present, there would be little perceptible change in their appearance."
- Radio 3 and 4 should be financed largely by sponsorship and subscription, like Public Broadcasting System in the U.S., and also by advertising. The governors would be responsible for ensuring that they retained their essential character.
- Local radio should be sold to the highest bidder.
- External Services should continue to be financed by the Foreign Office.

The report also suggests that restrictions on advertising on independent television should also be lifted in two stages. First, advertising of betting and cigarettes should be permitted. Second, after the arrival of greater competition – such as cable TV – the restrictions on political and religious bias, should be relaxed.

Other points from the report include:

- Radio spectrum: There should be much wider and freer use of the radio spectrum, particularly to meet the growing needs for mobile communications. Large sections of the spectrum are underutilised because they are allocated by officials.
- Post Office: The report says that letter delivery is not a "natural monopoly." It recommends the deregulation of all Post Office services and suggests breaking the PO into small units and selling each portion to the workforce.

Omega Communications Report, Adam Smith Institute, Box 316, London SW1P 3DJ, Price £5.

THE MANAGEMENT PAGE: Small Business

EDITED BY CHRISTOPHER LORENZ

Hard times for a traditional artisan

Alan Friedman describes the dilemma facing an Italian family company


Luigi (seated) and Giuseppe Biraghi: another deficit this year

SOME OF the notions the foreigner may have about Italian small business—the successful craftsmen, ever flexible and market sensitive, perhaps operating on the black economy—are simply not as axiomatic as they appear.

Take, for example, the proud and family-run Milanese metal-working business of L. F. Biraghi which, like countless other small Italian companies, is struggling to cope with the aftermath of recession, the exorbitant cost of bank loans and the chronic frustrations of selling to the huge Italian state holding concerns which are a lifeline for so many.

The story of Biraghi is bitter-sweet: it can boast achievements such as the casting of bronze doors for St Peter's in Vatican City, but it is a company with a debt which at 200 per cent of net worth is forcing the family to consider radical surgery on its small workforce and its property holdings.

Biraghi's fortunes have always been tied to the construction industry, which has been alternately an asset and a liability. Luigi Biraghi, the 69-year-old president of the company, remembers that his grandfather started life in the 1860s as an ironworker. This trade was passed down through the family, which by the 1930s employed nearly 80 workers in the Milan area, building staircases for offices and factories and designing shop fronts and bank branch facades.

It was not until 1958 however that Luigi Biraghi decided to turn his little family business into a company. Trade was booming, the Italian economy was about to enter its "miracle" period of growth and the Biraghi family was receiving many commissions to produce steel frames and other structures for Enel, the state electricity group.

With his own cash flow and the small amount of bank borrowing Biraghi and his brother set up as a small company. Their desire was to continue the artisan tradition of past generations, and today it looks as though this emphasis on quality alone may have been an error in business terms.

"Perhaps I made a big mistake at the end of the last war in not trying to become a large company. But my method of work is that of an artisan and my philosophy of work is to stick to quality," says Luigi Biraghi, with a trace of irony.

At first the business seemed to be developing nicely: a 1961 agreement with Brockhouse, a UK steelworks company, resulted in five years of lucrative contracts to produce earthquake-proof structures in the south of Italy. In 1965 the Biraghis became sub-contractors on a state construction project in Tunisia. They received orders from Italsider, the Italian state steel concern, from Italimpianti, the engineering concern and from Alfa Romeo, the car company.

These contracts led them to establish a small subsidiary in Naples, called Metaltecnica.

The company's orders, more than 50 per cent of which were now coming from the state, were growing and so was the workforce. From a turnover of L219m (£131,000) in 1958 and a staff of around 50, L. F. Biraghi grew steadily so that by 1970 its annual sales topped L1bn (£600,000) and its workforce was close to 200. The 1970s saw still more state-related expansion and then a very profitable Saudi Arabian project in 1978 which doubled turnover and allowed Biraghi a L400m (£240,000) profit in 1979. By last year the company was enjoying annual turnover in excess of L10bn (£6m).

Unfortunately, L. F. Biraghi also managed a L100m loss last year and was forced to borrow to the hilt, bringing indebtedness to L800m, twice the company's net worth. Giuseppe Biraghi, 31-year-old son of Luigi, and the vice-president in charge of day-to-day operations, predicts there will be another deficit this year. He says that 80 per cent of the Naples-based staff has been laid off and now fewer than 150 of the company's workforce of 200 can be retained.

What has gone wrong? Giuseppe Biraghi explains: "A big problem is that the state companies are in trouble and we get fewer contracts from them. A few years ago the state orders made up half our turnover, now they account for a fifth. Even when we get contracts from Italsider they don't pay well. It can take 18 months to get paid and they always prefer to pay you in materials instead of money. I cannot pay my men with steel from Italsider."

But the younger Biraghi admits another problem: "We have been trying to diversify recently, but we went into a bad area, earthmoving equipment. A few years ago we made tractor bodies and this was 15 to 20 per cent of our turnover. Now, it is zero and we still have not been paid for past orders."

Finally, to compound problems, there is the cost of money. "We pay more than 20 per cent interest on our bank loans. With lower demand, payment delays and higher costs this has become difficult," notes Giuseppe Biraghi.

What then is to be done? The Biraghis are considering leaving one of their three factories. The plant in Naples will remain, as will one in Milan. But the third, just on the outskirts of Milan, may soon be vacated and rented out. At the same time the Biraghis reckon they now might as well try to make the most of their reputation for quality craftsmanship. They plan a publicity campaign in Italy which may feature the metal casting they have done for sculptures at the Venice biennale.

Giuseppe Biraghi speaks grandly of "redefining our market and redirecting our resources." But he is less confident when asked about the need for capital. "In the next two years I hope we can recover L1.5bn of payments owed us," he adds. What about diluting the family's 100 per cent control of the company by offering equity to outside investors? Asking this question of a small businessman in Italy is tantamount to an insult. "We don't want people coming in here and looking at our books," comes the Biraghi response.

No, Giuseppe Biraghi has a different vision of the future: "We have a highly skilled workforce and a tradition of quality. I am optimistic that there will be prospects for us at the top end of the market." And pulling his act from a pocket he brings out photographs of shop fronts he constructed only recently for the Rinascente department stores chain.

There is little doubt that L. F. Biraghi faces a struggle: it has not been particularly flexible or market responsive. But in other respects the little company fits back into the traditional pattern of small business in Italy: there is energy, optimism and a determination to continue what is above all, a family tradition. And while intangible and very much off-balance-sheet, these ingredients can be potent.

In brief . . .

THE GOVERNMENT'S decision last week to shelve plans for a new legal structure for small companies came as little surprise to lobbyists and accountants. The idea was contained in a Green Paper in 1981, based on a memorandum written by Professor Jim Gower in the days before he became preoccupied with investor protection. The "incorporated partnership" model which he suggested, would have granted some sort of limited liability to the partnership form as well as introducing safeguards for creditors simpler than those in the Companies Acts.

Reactions to the Discussion Paper, however, were largely unenthusiastic. A survey of Confederation of British Industry members at the time showed that more than 90 per cent saw "no value" in a new form of business entity.

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ANOTHER SMALL step has been taken to ease small firms' access to Government contracts. As from May 1 the value threshold for most Government contracts below which suppliers are exempt from normal approval procedures has been increased from £5,000 to £10,000. "The change should particularly benefit new suppliers and small firms seeking Government business," David Trippier, the Small Firms Minister, told Parliament recently.

The Government is also examining the scope for simplifying and standardising the technical information which government departments require from new suppliers wanting to qualify for larger orders. A standard form covering financial and general information has already been agreed and will be used by all Purchasing Departments from July 1.

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A STUDY has been commissioned to look into the way a significant number of small, high technology companies have been established in recent years in the Cambridge area—the so-called "Cambridge phenomenon." Sponsors of the study, which will be carried out by Segal Quince's Associates of Cambridge and will cost about £22,000, include the Department of Trade and Industry, several private companies and a couple of Cambridge Colleges. It will be published at the end of the year.

T. D.

Enterprise allowance

Success creates a problem

THE RECENT surge in demand for the Enterprise Allowance Scheme, which provides a weekly state grant of £40 for unemployed people who set up their own businesses, has placed the Government in another awkward dilemma.

Last Tuesday, Alan Clark, the Junior Employment Minister, announced in Parliament that the number of new places under the scheme would be raised from 600 to 1,000 per week between now and the end of July. The move is designed to shorten the long waiting lists — more than 20 weeks in some parts of the South of England — which are causing frustration for the would-be self-employed and embarrassment for the staff of the Manpower Services Commission's Jobcentres, which operate the scheme on behalf of the Government.

Significantly, however, Ministers have not so far said anything about further funds beyond the £130m already committed up to the end of the current financial year. Said Clark, who is known to be pushing for more cash, "the future of the scheme in the medium-term is being considered as a matter of urgency."

The scene thus seems set for another familiar battle between the Department of Employment and the Department of Trade and Industry on the one hand and Treasury Ministers on the other. As mirrored by the debate over the Loan Guarantee Scheme — the future of which depends on the outcome of a recent review — the Treasury is clearly taking more than a little convincing that the cost to the taxpayer can be justified. And one difficulty for protagonists of the scheme is the dearth of research on how it has operated to date and the major problem involved in obtaining any such insight.

Introduced on an experimental basis in five pilot areas at the beginning of 1982, the scheme went nationwide last August with sufficient money for 25,000 people in 1983-84 while resources for a further 35,000 were announced last November. At present 29,000 individuals are receiving the grant, which is paid weekly, is taxable and lasts for up to one year. Applicants have to have been unemployed for at least 13 weeks and must be receiving unemployment or supplementary benefit at the time. To be eligible they must also be prepared to put up £1,000 of their own (though a bank loan or overdrafts will do).

The Government is understandably encouraged by the scheme's popularity and sees it as a positive way of helping unemployed people help themselves to create their own jobs. Ministers believe the measure is bringing out into the open entrepreneurial talent which would otherwise have been submerged in the non-taxpaying Black Economy.

Key questions, however, have yet to be answered. Is it right for example, to encourage vast numbers of unemployed people with no experience of being on their own to start up their own business? And how many of those who have joined the scheme will survive after the free Government money runs out?

Evidence from an MSC survey of some of the 3,000 businesses on the pilot scheme at the beginning of 1982 indicated that 90 per cent were still "alive" at the end of the first year. Further research by Government suggests that two-thirds survived six months beyond that and up to 50 extra new jobs may be created for every 100 individuals receiving the grant.

Collating the relevant data, however, obviously presents difficulties once businesses leave the scheme and lose touch with their local Jobcentre.

Hale and mostly hearty

SIXTEEN months ago on this page (January 18 1983), we looked at a Burnley acupuncture clinic, a Coventry pipe fitter, and a Kent lampshade manufacturer — three fledgeling businesses set up during the initial pilot phase of the Enterprise Allowance Scheme.

Happily, all three continue to trade today — though in two cases progress has been a real struggle. All at least appear to have found the experience worthwhile, though between them they have not generated any significant new jobs.

Evonne Miles and Peter Robinson, then 47 and 42, respectively, set up Gravesend-based Kent Lighting as a partnership after the company where they worked closed down abruptly. They used their redundancy money to purchase stock from their former employer. Miles says the major problems have been getting money out of customers (department stores and shops) and finding premises with a short lease. "We seem to be working like stink but not getting anywhere," he says. "If we tried to pay ourselves for the hours we worked, we just couldn't do it."

Explains Robinson: "We need turnover of around £1,000 a month to make a reasonable living, but we don't seem to manage to get past £800. We are still under-capitalised, so can't buy stock if other people hold on to our money. The trouble is we are very small and, if we threaten a bigger company, they can always go somewhere else." Nevertheless, Robinson has decided to adopt a tough new approach at the risk of losing some turnover.

Trade has been patchy since Christmas, but both are determined to hang on until business picks up, "and the money starts flowing again."

Nicholas Griffiths, a married man in his mid-30s with a young child to look after, gave up £97 a week in Social Security benefits in 1982 to start Bar and Cellar Services with his father. The idea was to use his experience as a pipe fitter with Scottish and Newcastle breweries, which laid him off, to put refrigeration units and other equipment into tenanted houses and workingmen's clubs in the Coventry area. Griffith now earns well over £97 and appears to be busy. According to his 65-year-old father, Ronald, however, who is now retired, the cost of financing VAT payments to suppliers rules out the carrying of large stocks and thus inhibits expansion.

Peter Cragg, the former production manager of a North West clothing manufacturer, is "doing quite nicely" as an acupuncturist. He has even bought an established clinic in Manchester and now divides his time between that and his Barnley franchise operation. Perseverance, he says, has paid off, besides which "more and more people seem to be turning to alternative medicine as they get dissatisfied with the National Health Service." He is now earning more than in his old job and certainly finds "more job satisfaction" being self-employed.

Tim Dickson

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For the Board of Directors
THE SECRETARY

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In accordance with the provisions of the Agency Agreement between Banque Exterieure d'Algerie, and Citibank, N.A., dated as of October 17, 1978 notice is hereby given that the Rate of Interest has been fixed at 12¹⁄₁₆% and that the Coupon Amount payable on November 8, 1984 against Coupon No. 12 will be US$61.65.

by: CITIBANK, N.A.
(C.S.S.I. Dept)
London Agent Bank

May 8, 1984.

NEW KLEINFONTEIN PROPERTIES LIMITED
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NOTICE TO HOLDERS OF SHARE WARRANTS TO BEARER PAYMENT OF COUPON NO. 180

With reference to the notice of declaration of dividend advertised in the press on 16 March 1984 holders of Share Warrants to Bearer are informed that payment of Dividend No. 80 will be made in United *Kingdom Currency on and after 25 May* 1984 after surrender of Coupon No. 180 as follows:

	Per Share pence
Dividend declared in South African Currency 7 cents per share, equivalent in United Kingdom Currency on 2 May 1984 at R1.775459 = £1 to	3.942642p
South African Non-Resident Shareholders' Tax at 15%	0.591396p
	3.351246p
United Kingdom Income Tax at 15% (see note) on the Gross amount of the Dividend	0.591396p
Net amount	2.759850p

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AFRICAN FINANCE CORPORATION (U.K.) LIMITED
London Secretaries
per: A. W. BRADSHAW

London Office:
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8 May 1984

NOTE: Under the Double Tax Agreement between the United Kingdom and the Republic of South Africa, the South African Non-Resident Shareholders' Tax applicable to the dividend is allowable as a credit against the United Kingdom tax payable in respect thereof. The deduction of tax at the reduced rate of 15% instead of at the basic rate of 30% represents an allowance of credit at the rate of 15%.

CORRECTED NOTICES

NOTICE OF PREPAYMENT
THE SAITAMA BANK LIMITED
(Incorporated in Japan)

US$15,000,000
CALLABLE NEGOTIABLE FLOATING RATE DOLLAR CERTIFICATES OF DEPOSIT
Nos: J000001 to J000015
Issued on 16 June 1982
Maturity Date 18 June 1985
optionally callable in June 1984

NOTICE IS HEREBY GIVEN that, in accordance with clause 3 of the Certificates of Deposit (the "Certificates"), the Saitama Bank Limited ("the Bank") will prepay on 18 June 1984 all outstanding Certificates, at their principal amount, together with accrued interest to the same date.

Payment of the principal amount, together with accrued interest will be made on and after 18 June 1984 upon presentation and surrender of the Certificates at the London Branch of the Bank.

Interest will cease to accrue on the Certificates from 18 June 1984.

THE SAITAMA BANK LTD.
London Branch:
30 Cannon Street,
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8 May 1984.

THE ARTS

Swan Lake/Dominion

Clement Crisp

The Cuban Ballet's *Swan Lake*, unveiled in all its vivid improbability on Friday night, provides as quaint an outfitting of the old war-horse as any I have seen. It combines lurid, flimsy costuming with a choreographic text so far "after" the Petipa/Ivanov canon as to be out of sight and nothing would become it so much as its final curtain were it not for the fact that the Cubans provide some rich and rewarding dancing, and no less than seven interpreters of Odette/Odile to suggest the company's wealth in artistry.

If the ballet-goer is prepared to disregard the look of the thing—the courtiers' barmy outfits, the hyper-active peasantry, the happy ending, and even the winsome caperings of a Jester—then there, at the heart of the matter, is dancing warm and whole-hearted. The dancers for their part have to overlook the slippery patches on a stage-covering which brought mishaps and falls on each of the three nights I watched the company. Loipa Araujo, Friday's ballerina, was not spared by the floor, but the authority of her interpretation triumphed over this hazard as it did over the larger hazards of the production itself, though I longed for her to have decently authentic choreography on which to exercise her fine gifts.

Mme Araujo is no stranger to London: she was the irresistible Swanilda of Roland Petit's *Coppélia*, and a tragically beautiful Esmeralda in his *Notre Dame*, and I have also reported on her haunting power in Petit's *L'Arlésienne*. Her dance style is voluptuous, womanly, the movement sometimes creamily slow, poured out with mysterious deliberation that proclaims the depths of Odette's grief as well as the potency of Odile's sensuous domination over Siegfried. It is a highly personal and persuasive reading, with bold support from Jorge Esquivel's Prince. From the corps de ballet and various soloists dancing yea-saying and forceful: at every moment the Cubans seem passionately dedicated to their art.

As notes in passing let me record that from certain central stalls seats you have as good a view of the conductor's back as of the leading dancers; that the auditorium is apparently lit by one 40 watt bulb, and that the programme book, which cannot spell Mme Araujo's name and promises us the third act of *Giselle*, is as shoddily produced a guide as any I have seen.

Europe Day Concert/Brighton

Ronald Crichton

The musical side of this year's Brighton Festival is promising. "Featured" composers are Penderecki, Tippett and Bridge. There is strong Polish representation, with the Warsaw Chamber Opera bringing four productions including a brand new one of the national favourite, Moniuszko's *Halka*, which every opera-goer knows about but, outside Poland, few have seen. The first big concert took place on Saturday (Europe Day) at St Bartholomew's Church, with Laszlo Heltay conducting the Festival Chorus and the BBC Concert Orchestra.

The choice of programme for this building showed a discerning hand. The immensely high interior, at once gaunt and sumptuous, of what Betjeman has praised as "one of the great English churches of the 19th century," is impressive enough to outweigh the peculiar acoustics. Reverberation is fierce but not long. Some details go for nothing, but an impact is made. Soft tone (would there have been more of it) is lovely. Ravel's *Pavane* at the beginning was clothed in ritualistic overtones. In Pulenc's ubiquitous *Gloria* the chords piled up in a way not unsuited to the music's pretend-punchiness. The soprano solos of Jill Gomez, in gorgeous voice, were not spoiled but enhanced.

Gounod's St Cecilia Mass filled the second part. A forgotten work, one might have thought, yet it was recently reprinted by Novello. The Mass, first performed in Paris in 1855 but partly written earlier, caused a sensation at the time and drew warm praise from Berlioz and Saint-Saëns. Gounod came then as a breath of fresh air. To later generations his church music sounded too sweet and too theatrical. Now, with Verdi's Requiem our daily bread and Rossini's sacred music tolerably familiar, one is as surprised in this work by a general lack of mawkishness and pomposity as by traces of almost martial swagger. If Gounod deemed this suitable for St Cecilia, what can his Joan of Arc Mass be like?

Mr Heltay rightly kept the music on its toes. Gounod's harmony has unexpected touches but it does not move quickly and did not suffer too much from reverberation. The Chorus, whose average age has shot up since I last heard them, sang lustily. The orchestra on the other hand sounded from a seat near the front ill-balanced and, in the bad old oratorio way, not terribly well prepared. Everything was too loud, especially the Offertory, which Gounod could have slipped as an interlude into his *Roméo and Juliet*. For the Mass Miss Gomez was joined by two more soloists. Martyn Hill and Henry Herford.

Double bill/Cornet, Clapham

Antony Thorncroft

Every new theatrical venture demands some critical attention, and a venture which crams a stage with over 30 actors also merits wonder. The New Cornet Theatre is above a pub off Lavender Hill in south London. Until June 3 nightly it is presenting *The Hunchback of Notre Dame* and *Moby Dick* followed by a cabaret, no less, all for £4.50.

It sounds unbelievable and it is. It is a *foie de grandeur* by Robert Longden who adapted both novels and directed the plays. He only appears in the *Hunchback*, however, having no doubt exhausted his imagination in presenting *Moby Dick* as it might have been presented in Venice by the *crème de la crème* of Miss Jean Brodie's girls.

What can one say. It is dreadful without being boring, uncanny without being bizarre. The *Hunchback* is not played for laughs (I think) although the attempts by all the aspiring actors to hog the limelight while appearing in unrewarding back-up roles are inherently funny. But it is more Ayckbourn than Hugo, so crammed with coarse acting as to be positively vulgar. But not quite; unfortunately it stays on the serious side of the absurd.

I can only assume that *Moby Dick* was given a Venetian slant because a back-cloth of the city was to hand. Occasionally there was a limp gesture towards the camp but in the main it came across as a cruel trick by a bored Manpower Services Commission worker trying to keep the hyper-active unemployed off the streets. Amid the many some shone fitfully: David Auker as the Hunchback and Carola Stewart in Moby Dick might go on to serious acting, but in the main this was a very curious venture of which it can be confidently said its like will never be seen again.

National Gallery

William Packer

Degas in focus

No great collection is ever complete: stop collecting, and no matter how wonderful it is, the catch achieved is immediately fixed and limited, and likely only to become ever more specialised and recondite in the interest it affords us. For it is an obvious truth that each new acquisition, however small or slight, insensibly reanimates and renews the whole. The National Gallery knows that its very life depends upon a continuing engagement in the vital processes of collecting.

The Gallery has certainly done well by us lately, indeed has picked prime plums from two of the most extraordinary exhibitions of recent years: only this winter was the Bassano *Way to Calvary* hung in the Venice show at the Academy, and now it hangs in Trafalgar Square; and *Hélène Rouart in Her Father's Study* by Degas, which was one of the stars of Post-Impressionism at the Academy four years ago and was bought in 1981, is now (until June 10) the subject of the latest in the Gallery's admirable series of gently didactic exhibitions, the fourth *Acquisition in Focus*.

It is quite simply a lovely painting. Degas had been at school with Hélène's father, Henri, a friendship that had revived and strengthened in middle life, by which time Rouart was a successful businessman, and a discerning collector of fine things, and a brave patron of his contemporaries. Degas had painted them together already, in the early '70s, she a 10-year-old on her father's knee, and from time to time he drew her as she grew up, taking advantage of so convenient and friendly a model.

The show here establishes that long-standing relationship, setting the scene for this later, as it turned out final, portrait (1886), pointing the references both to Rouart's personal interests and to Degas' wider researches. There she stands at last, a young woman of 23 alone in her father's room, half leaning on the back of the chair beside a desk piled with papers, an ancient mummy case reflected in the glass behind her to open up, with a delicate ambiguity, a further space within the picture's space.

The painting remained unfinished, and was still in the studio at the artist's death in 1917; but it is fully resolved nevertheless, the figure so lightly yet so firmly drawn and modelled, the head simple, sculptural and exquisite. Hers is a strange and haunting presence, and the picture altogether is imbued with something of the melancholy that is the character of all true art, not a sadness exactly, but a thoughtful intimation of mortality. It is a moving and intimate memorial to that easy familiarity born of old friendship, and we are privileged to have it here.

Life's a Dream & The Marathon/Pit & Empire

Martin Hoyle

These two plays comment interestingly on problems of translation. Michael Coveney warmly welcomed the Stratford unveiling of Calderón's *Dream* in these pages. Its square corral and hobby-horse now transferred to the Pit, Adrian Mitchell's version poses more questions than it answers.

Mr Mitchell's frankly waffly programme note explains his use of different styles. *Panto-fed Brits accept rhyming couplets* happily from clowns (even when a song smacks more of Brecht's Azdak than the Spanish Golden Age), uneasily in a serious context. The astrologer-king who imprisons his newborn son in deference to horoscopic warnings lacks authority when Mr Mitchell, doing our judging for us, too often makes him a verbose pedant; and final defeat is acknowledged in the verse's sub-Shakespearian echoes ("Since I must be a conqueror I see I first must make a conquest of myself").

Elsewhere a determination not to be flowery leads poor Barbara Kellermann (a lovesick warrior-maid in man's guise, like Bradamante) to exaggerate her gender-changes until one point where she seems to be imitating Mrs Thatcher.

The late Renaissance groping for guidelines in the will v. destiny debate and the Latinate conviction of the transience of things (sometimes Mitchell's lines echo Fairfax's wonderful Englishing of Tasso) combine with a fairy-tale framework to make one long for a less painstakingly laid-back approach. Anthony O'Donnell's clown comes off best, and Miles Anderson's imprisoned prince, brutishness transformed into enlightment, shows the relaxed intelligence of one of our best young actors. He demonstrates the character's prismatic complexity: Renaissance man less than angelic but king of creation, existentialist-turned-Jesuit. Otherwise the performance proves Mr Mitchell's assertion that "verse can do anything that prose can do"; including sounding prosaic.

John Barton's production provides one magic moment when the king's starry magician's robe covers the whole acting area. Otherwise sterling players like Charles Kay and David Waller patently wonder whether to be symbol, caricature or person. Christopher Neame's haughty noble successfully manages a swipe at all three.

Barbara Wright and Vladimir Mirodan (who also directs) have done better with Claude Confortes's *Marathon*, a genuine oddity at Deptford's Albany Empire. The cockney, African and Ulster accents of the three Olympic runners sound absolutely right in most of the dialogue, apart from one of those eternal jokes about horns that reflect the Latin male's obsession with cuckoldry, and the portentous prosody of Bécaud-haunted French popular song. Lacking qualifying heats, the race is apparently open to all, hence the middle-aged book-keeper, stocky fitter and black farm-worker. They quarrel, clown, reminisce and philosophise on Martin Sutherland's tilted saucer of a set, veined with the sinews and arteries of a road map and leading them through the auditorium's tables. Nick Edmett, Walter McMonagle and Okon Jones deserve medals for stamina; a four-girl band adds excitement; and, if too long the Combination's production merits support.

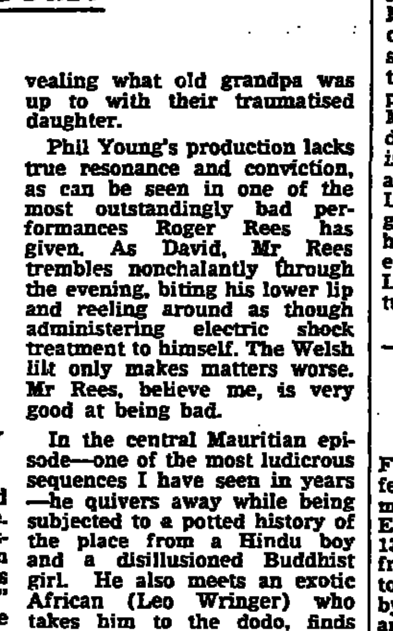
Cries from the Mammal House/Royal Court

Michael Coveney

There is no disputing Terry Johnson's promise or individuality—he wrote that spirited encounter between Einstein and Marilyn Monroe, *Insignificance*—but his *Cries from the Mammal House* at the Royal Court are muffled whimpers of misfired comedy, anthropological banality, sexual and emotional inertia, skimpily political travelogue, and finally unsatisfactory, even puzzling, conclusions.

The old man of a small zoo on the south coast has died, killed by his own elephant. His son Alan, a depressed vet, has supervised a rapid decline of the zoo's fortunes while his wife Anne, a psychotherapist who made the mistake of marrying a patient, is violently attracted towards Alan's brother David, a conservationist bound for the pink pigeons of Mauritius. David takes with him a stuffed dodo and returns with a live one.

Alan and Anne have a daughter who once saw something nasty in the mammal house. As a result, she adopts the physical characteristics of either a chimpanzee or a praying mantis while being made love to by her apprentice butcher boyfriend. If any of this were particularly funny, Mr Johnson could be forgiven a great deal. Instead, you are confronted with silly physical and intellectual posturing about the human zoo, the mess we make of relationships, and so on. It is all rather sententious and ultimately intolerable.



Alastair Muir

Roger Rees and Leo Wringer

There are animal projections on *Peter Hartwell's* drab arrangement of grey screens, an entertaining collection of stuffed beasts which Jennie Stoller as Anne pointedly throws in a packing case while failing to make David serious about her, and an assortment of mimed birds, gerbils and dead mice. The best—and best acted—passage of the play, comes when Anne assaults Alan with cries of "Kiss me" and "Touch me" while he calmly syringes the smaller clientele and the young boyfriend appears covered in blood while despatching a barrowload of *flayed carcases*; Alan, impassively played by David Lyon, underlines his lack of compassion by showing the distraught Anne the heart of a lion. He then kills the elephant and himself, but not before revealing what old grandpa was up to with their traumatised daughter.

Phil Young's production lacks true resonance and conviction, as can be seen in one of the most outstandingly bad performances Roger Rees has given. As David, Mr Rees trembles nonchalantly through the evening, biting his lower lip and reeling around as though administering electric shock treatment to himself. The Welsh lilt only makes matters worse. Mr Rees, believe me, is very good at being bad.

In the central Mauritian episode—one of the most ludicrous sequences I have seen in years—he quivers away while being subjected to a potted history of the place from a Hindu boy and a disillusioned Buddhist girl. He also meets an exotic African (Leo Wringer) who takes him to the dodo, finds him some pink pigeons and finally returns to England along with David, the Hindu and the reformed Buddhist. An English diplomatic couple (played by Mr Lyon and Miss Stoller) stay on, she cracking up, he subsiding into his comic karma. It must mean something. On the other hand, why should it?

The Magic Flute/Coliseum

Rodney Milnes

Anthony Besch returned to take charge of the latest revival of his classic *Flute* production—the first night was a gala in aid of the Ockenden Venture—with many tangible results. John Stoddart's lovely decor had been carefully re-lit by Stephen Watson, the dialogue was delivered at a cracking pace, and some props re-made—there is a fine staging with many years of life still in it despite a wrinkled drop or two and the odd mishap on the first night.

The cast mixed old with new. Familiar were Valerie Masterson's sweetly girlish Pamina, sung with abundant charm apart from perhaps too studied an "Ach ich fühl's," and Alan Opie's Papageno-in-a-thousand, vocally impeccable, uproariously funny, yet with an underlying melancholy to strike a chord in the hearts of any bachelors in the audience. His matinee duet with Marilyn Hill Smith's eager Papagena brought an almost indecent sense of release—a Happy End indeed.

Prominent among the newcomers was Rowland Sidewell as Tamino. His voice is of heroic proportions yet used with discretion; he phrases cleanly and musically and fields variety of dynamic with imagination. Most encouraging is his new-found ease on stage. He presented an unaffected, likeable Prince with few hints of former awkwardness. Here, before too long, is the company's next Siegmund and Stolzing.

Jane Eaglen, also potentially Wagnerian of voice and figure, led the Three Ladies for the first time brightly and truly. Sean Rea made a decent Sarastro, but Angela Denning sadly had an off-night as the Queen (both her entrances, though, are again as spectacular as they were when the production was new). In the pit, Wyn Davies seemed not quite to have gauged th house acoustic. Brisk speeds that worked well in the smaller theatres in which he has conducted the piece led here to muzziness and untidy corners. Time enough to sort that out over the next fortnight.

Paata Burchuladze/Warwick Square

David Murray

The Warwick Arts Trust recital-series in St Gabriel's, Warwick Square, captured Mr Burchuladze for a London debut on Thursday, prior to his Ramfis in the forthcoming *Aida* at Covent Garden. Not yet 30, he is the principal bass of the Tiflis Opera, and boasts a gold medal from the Moscow Chaikovsky competition two years ago. Those were not premature distinctions, though basses are supposed to mature late: the voice is splendid, and husbanded with the care due to a vintage product that the years can only enrich.

As basses go, Burchuladze's is remarkably even, full and flexible—and precisely pitched (whenever Russian conventions don't dictate theatrical *Sprechstimme)*. The lowest reach isn't phenomenal, the top is secure and unforced; granted that a church acoustic can flatter misleadingly, the broad power and character of his singing brooked no critical resistance. There is solid physical conviction in the timbre, and it answers to exact musical intentions.

Burchuladze was imposing and cultivated in seven Rakhmaninov songs and a Shakespeare sonnet set by Kabalevsky, gripping in Mussorgsky's "forgotten" and jovially fierce in his version of Goethe's flea-ballad. Among several arias from Italian opera (darkened by Russian vowels, and limply accompanied by Robert Sutherland) Philip's "Ella giammai" from *Don Carlos* had promising tragic stature, and contrasting numbers from *Sonnambula* and *Ernani* evinced professional passion. There were some studied histrionics, tolerable but generalised, like the word-treatment—perhaps the result of having to learn a lot of roles quickly. Burchuladze's resources deserve room for more creative exploration.

The Pot of Gold/Conway Hall

B. A. Young

This is a version of the *Aulularia* by T. Maccius Plautus, who also wrote the original of *The Comedy of Errors. The Pot of Gold* isn't in that class; it's a conventional farce, said to be adapted from Menander. Phaedria, daughter of a mean old man, Euclio (who spends his life worrying about the chances of having his secret pot of gold stolen) is to marry Megadorus, who "would rather die than get married." But she *is in love with young Lyconides*, and is about to have his baby. Lyconides's slave duly steals the gold, and all ends happily when he returns it to Lyconides in exchange for his liberty, and Lyconides uses it as a substitute for his daughter's dowry.

E. F. Watling's translation is uninspired; it sounds like a first draft. Perhaps it would make a base for a modern farce or musical, if only the story wasn't so fundamentally familiar. David O'Brien has added some songs to this version, but the less said about that the better.

The production comes from Jobgrapevine, an employment exchange for Equity members. The cast it has collected here is pretty miscellaneous, but it would be harsh to speak too un*kindly of them when they have* to compete with Mr Watling's lines and the less-than-exciting direction of Johnny Worthy. Looking back on *A Funny Thing Happened on the Way to the Forum*, I feel there was more fun to be got out of the comedy than Mr Worthy gives us.

'800 years of words and music' for 1984 City of London Festival

The 1984 City of London Festival (July 15-28) will feature 800 years of words and music from a programme of English lyrics of the 12th and 13th centuries with dance music from the Reading MS, through to first performances of works by Birtwistle and Dankworth and first London performances of works by Tippett and Rihm.

Highlights of the festival will include two concerts by the Polish Chamber Orchestra under Jerry Maksymiuk at the Mansion House (July 16) and in the Guildhall Old Library (July 20); four performances of Britten's *Noye's Fludde* (St Andrew's Holborn, July 24 and 25); *String Quartets in Time* — a series of six chronological performances exploring the 200 year history of the string quartet and staged in halls appropriate to each period (July 16-21) and a weekend of contemporary music at the Guildhall School of Music and Drama featuring works by a number of composers in workshop, rehearsal and performance (July 21-22).

Solo artists who will be performing in the festival include Jorge Bolet. Erich Gruenberg. John McCabe, Iona. Timothy and Ian Brown. William Bennett, Marisa Robles. Felicity Palmer and Ralph Kirshbaum.

Arts Guide

May 4–10

Music

LONDON

London Philharmonic Orchestra, conducted by Klaus Tennstedt, with Jessye Norman, soprano. Wagner. Royal Festival Hall (Mon). (9283191).

Hartley Trio: Beethoven, Smetana and Brahms. Purcell Room (Mon). (9283191).

Philharmonia Orchestra conducted by Lionel Friend with Pascal Roge, piano. Beethoven, Handel and Mozart, Barbican Hall (Mon). (6388891).

Divertimenti String Orchestra and the Raglan Baroque Singers conducted by Nicholas Kraemer. Beethoven, Mendelssohn and Purcell. Queen Elizabeth Hall (Tue). (9283191).

Paul Roberts, piano: Debussy, Stravinsky and Ravel. Purcell Room (Tue).

English Chamber Orchestra conducted by Jeffrey Tate with Peter Donohoe, piano. Mozart. Barbican Hall (Tue).

Royal Philharmonic Society: Philharmonia Orchestra, Bach Choir and Choir of St. Paul's Girls School, conducted by Sir David Willcocks with Sarah Walker, mezzosoprano and Simon Preston, organ: Bach, Handel, Holst and Elgar. Royal Festival Hall (Wed).

Katia and Marielle Labeque, pianos: Brahms and Liszt. Queen Elizabeth Hall (Wed).

London Philharmonic Orchestra, in the presence of Queen Elisabeth. Frank Shipways, conductor and John Lill, piano. Wagner, Beethoven and Tchaikovsky. Barbican Hall (Wed).

English Chamber Orchestra, conducted by Jeffrey Tate with Mitsuko Uchida, Mozart. Barbican Hall (Thur).

NEW YORK

New York Philharmonic (Avery Fisher Hall): Gunther Herbig conducting. Peter Schreier, tenor. Mozart, Sutermeister, Bach, Britten (Tue); Erich Leinsdorf conducting, Yo-Yo Ma, cello. Shostakovich, Schmidt (Thur). Lincoln Center. (8742424).

Carnegie Hall: Dame Janet Baker, mezzosoprano with Martin Isepp, piano. Schubert, Mozart, Haydn, Mahler, English love songs (Wed); Oratorio Society of New York. Lyndon Wooside conducting, JoAnn Pickens, soprano, Stanley Cornet, tenor, John Shirley Quirk bass-baritone. Christ Church Boys Choir. All-Britten programme (Thur). (2477459).

Robert Secrist (Kaufman Hall): Guitar recital. Lauro, Ponce, Barrios-Mangore, Villa-Lobos (Wed). (92nd St Y (4274410).

PARIS

Tokyo Philharmonic Orchestra: Dvorak, Takemitsu, Shostakovich (Mon); Dvorak, Yashiro, Tchaikovsky (Tue). Théâtre des Champs Elysees (7234777).

Elisabeth Söderström recital, Roger Vignolles, piano: Schubert. Strauss, Tchaikovsky, Rachmaninov (Mon). Théâtre de l'Athenée (7426727).

Orchestre Colonne, conducted by Olivier Holt: Contemporary composers (Mon). TMP-Châtelét (2337289).

Ensemble Orchestral de Paris, conducted by Jean-Pierre Wallez, Henryk S. Eryne, violin: Philip Bride, 2nd violin: Haydn, Mozart, Beethoven (Mon). Salle Pleyel. (5610630).

Hussein el Masry, Arab lute (Mon), music from the Nile (Tue, Wed, Thur). 6.30pm. Théâtre de la Ville. (2742277).

Paul Küntz Orchestra and Choir, *Anne Queffelec, piano:* Beethoven, Schumann. Charpentier (Tue). Saint-Severin Church. (6338761).

Mozart. Michele Boegner, Jean Mouillere playing piano and violin sonatas (Wed). Théâtre des Champs Élysées. (7234777).

Orchestre National de France and Radio France choir, conducted by James Conlon, Barbara Hendricks, soprano, Walton Gronrcoos, baritone: Brahms German Requiem (Wed, Thur). Saint-Denis Basilica, Metro Saint-Denis. (5241516).

WASHINGTON

National Symphony (Concert Hall): Rafael Frühbeck de Burgos conducting, Ellen Shade soprano. Brenda Boozer mezzosoprano, Jerold Norman, tenor, James Courtney, bass-baritone, Lambert Orkis, piano. University of Maryland Chorus. All-Beethoven programme (Tue, Wed mat, Thur). Kennedy Center (2543776).

CHICAGO

Chicago Symphony (Orchestra Hall): Claudio Abbado conducting, Rudolf Serkin, piano. Beethoven, Ferneyhough, Dvorak (Thur). (4358122).

WEST GERMANY

Frankfurt Alte Oper: The Alban Berg quartet plays Mozart and Schubert (Tue); The Boston Symphony Chamber players and soprano Jan de Gaetani with Bach, Mozart and Beethoven (Wed).

Berlin, Philharmonie: The Berlin Philharmonic Orchestra conducted by Zdenek Macal. Smetana (Thur).

ITALY

Rome: Auditorium di via Della Conciliazione: Debussy conducted by Georges Pretre. (Mon and Tue). (65.41.044)

Rome: Teatro Ghione, Via delle Fornaci 37: Debussy. Luisa Preyer, piano. (Thur). (6372294).
semble plays Scott Joplin (Wed). (393304).

Naples: Teatro San Carlo (as part of International Music Week): Royal Philharmonic Orchestra directed by Antal Dorati. Walton, Beethoven and Tchaikovsky (Tue, Wed and Thur). (425708).

VIENNA

Vienna Symphony Orchestra: conducted by Horst Stein. Hindemith and Bruckner. Musikverein (Wed and Thur).

Vienna Hofburg Orchestra: conducted by Gert Hofbauer. Viennese waltzes and operetta. Konzerthaus (Thur).

Opera and Ballet

LONDON

Royal Opera, Covent Garden: The interestingly-cast revival of Cosi fan tutte, with six newcomers to their roles in this house, is let down by the condition of crude farce into which the John Copley production has declined, and even more seriously by the erratic technical control of Christoph Eschenbach's conducting. Britten's Midsummer Night's Dream, not seen in this house for several seasons, returns with an attractive young cast, almost all entirely fresh to their roles (Marie McLaughlin, Yvonne Kenny, Claire Powell, Robin Leggate, Jonathan Summers, Stafford Dean as Bottom) but led by the long-familiar Oberon of James Bowman; Roderick Brydon conducts. (2401066).

English National Opera, Coliseum: The new production of Verdi's Sicilian Vespers, though rather lowering and monotonous to the eye, is in the main a gratifying success, in which the conducting of Mark Elder and the singing and acting of Neil Howlett and the lustrous Rosalind Plowright play an especially significant part. The Magic Flute, in Anthony Besch's lovable production, returns with Rowland Sidwell, Valerie Masterson, and Wyn Davies as conductor; last performance of the Rosenkavalier revival led by Josephine Barstow, a Marschallin not to be missed. (8363161).

PARIS

Massenet's Werther conducted by Georges Pretre in Florence's Teatro Communale production, with a superbly sung title role by Alfredo Kraus, admirably partnered by Lucia Valentini-Terrani as Charlotte, Gino Quilico as Albert and Christine Barbaux/Marie-Christine Porta as Sophie; alternates with Mussorgsky's Boris Godunov, conducted by James Conlon, with Nicolai Ghiaurov in the title role, Martin Mahe as Fiodor and Marie-Christine Porta as Xenia, at the Paris Opera. (7425750).

Cimarosa's Secret Marriage conducted by Cyril Diederich in Cologne Opera's production with Carlos Feller Michel Trempont as Geronimo and Michele Lagrange as Elisetta at the Opera Comique-Salle Favart. (2960811).

NEW YORK

American Ballet Theatre (Metropolitan Opera House): The eight-week spring season of Mikhail Baryshnikov's company includes an all-new Cinderella, choreographed by Baryshnikov and Peter Anastos. Other season premieres include works by Twyla Tharp and Martine van Hamel. Natalia Makarova's new staging of Paquita and company premiere of Sir Kenneth MacMillan's Triad. Company favourites in the repertory include Swan Lake and last year's premiere of August Bournonville's La Sylphide. Lincoln Center. (5809830).

WASHINGTON

Metropolitan Opera (Opera House): The hundredth annual spring tour brings a fortnight's programme of seven operas, including Francesca da Rimini conducted by James Levine with Renata Scotto and Placido Domingo: Rinaldo, conducted by Mario Bernardi with Marilyn Horne in the title role; Thomas Fulton conducting Ernani with Ermanno Mauro in the title role and Jon Vickers in the title role of Peter Grimes conducted by David Atherton. Kennedy Center. (2543770).

WEST GERMANY

Munich. Bayerische Staatsoper: Premiering this month is a new production of Ariana Lecouvreur produced by John Copley, conducted by Guiseppe Patane, starring Margaret Price, Hanna Schwarz and Neil Shicoff. Der Rosenkavalier is of respectable standard with Gwyneth Jones

Berlin Deutsche Oper: Tosca has Eva Marton, famous for her rendition in the title role, and Giorgio Lamberti. Die Entführung aus dem Serail features Karin Ott and Bengt Rundgren in the main roles. Der Troubadour is produced by Herbert von Karajan and brings together Peter Gugalov, Carol Wyatt and Stefania Kabaivanska. (34381).

ITALY

Bologna: Teatro Comunale: Lucrezia Borgia with Katia Ricciarelli conducted by Gabriele Bellini. (222999).

Rome: Teatro dell'Opera: Parsifal conducted by Wolfgang Rennert and directed and designed by Pier Luigi Pizzi with Sven-Olof Eliasson and Gabriele Schnaut. (461755).

Verona: Spettacolo di Balletti with the Corps de Ballet of the Arena of Verona. (22880).

Rome: Teatro dell'opera: La Fenice production of Parsifal conducted by Wolfgang Rennert and directed and with scenery and costumes by Pier Luigi Pizzi. Sung by Sven-Olof Eliasson and Gabriele Schnaut. (461755).

Milan: Teatro alla Scala: Highly successful production by Gabriele Lavia of I Lombardi Alla Prima Crociata conducted by Gianandrea Gavazzeni. In the cast are Jose Carreras and Ghena Dimitrova. The opera has not been produced at La Scala since 1930. Also Donizetti's Don Pasquale conducted by Roberto Abbado and directed by Antonello Madau Diaz and with costumes by Gianni Versace. (Wed). (809128).

VIENNA

Aida conducted by Lorin Maazel with Vergara, Chiara, Vance, Seiris, Pavarotti; Salome conducted by Hollreiser with Armstrong. Hesse. Slania; La Cenerentola conducted by Zedda with Holm. Hintermeier. Balsta. Staatsoper. (5324/2655).

BRUSSELS

Marriage of Figaro directed by Sylvain Cambreling with Felicity Lott as the Countess. Theatre Royale de la Monnaie.

XXth Century Ballet, choreography by Maurice Bejart, with Messe Pour Le Temps Futur. Cirque Royale.

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An illusion of left-wing unity

LEFT-WING unity is a myth. Except for certain short interludes it has remained utterly elusive. When, under Soviet occupation, the East German Social Democrats were dragooned into merging with the Communists, some German Social Democrats in the West toyed with the idea of following suit: after all, Socialists and Communists were "brother parties." The party leader, the late Kurt Schumacher, growled "yes, Cain and Abel." There was no merger in the West.

Herr Schumacher's verdict stands to this day. In France the dream of unity was briefly realised by the Popular Front Government in the 1930s, and, again, with the election of M Francois Mitterrand to the presidency in 1981. The Socialist-Communist coalition then formed may still be in office, but it is hardly an example of unity. The Communists are sniping from within against the realistic economic policy forced upon the Government in 1983 and only last week reaffirmed by the Minister of Economics, M Jacques Delors.

In spite of unemployment and M Delors's austerity, the Communists are losing, not gaining popular support. Contrary to what one might expect, recession does not generally drive voters towards the Left. That experience was gained in the Europe of the 1930s, on both sides of the Channel; it is being repeated half a century later.

Policies

The Communists are faring little better in Spain where their popular support is diminishing. The Socialist Prime Minister, Sen Felipe Gonzalez, will have no truck with them. In Italy, as in Spain, the Communists are not in government. The Socialist Prime Minister, Sig Bettino Craxi, head of a centre-left coalition, took the Communists on quite deliberately with his bid to modify wage indexation and won, at least on points.

In Sweden the Socialist minority government of Mr Olof Palme has to depend on Communist support for some of its policies, but in practice the Communists are his prisoners. They can hardly afford to put him out in favour of a bourgeois coalition.

Even in the Greece of the flamboyant Mr Andreas Papandreou, the situation is not dissimilar. Mr Papandreou is in control, since his Pasok party has an overall majority in the Parliament. But since the Communists could cause trouble at industrial level, Mr Papandreou throws them sops by playing upon their subservience to Moscow.

Influence

A limited Communist influence of the pro-Moscow Communist Party may be detected in Greek foreign policy. Nothing of the sort has happened in the other countries discussed. M Mitterrand has taken France *closer to Nato than any of his* predecessors since General Charles de Gaulle loosened French links with the alliance. Sen Gonzalez has silenced the anti-Nato rhetoric of his election campaign in 1982. Italy, of all the European Nato countries involved seems to be taking most placidly to the prospect of having cruise and Pershing II missiles stationed on its territory.

Across Europe, the Communists have not broken out of the defensive position into which they were forced by the Soviet invasion of Czechoslovakia in 1968. The experiment of Euro-Communism has failed signally. The Italians and the majority of the Spanish party adopted this kind of Communism with its ostensible democratic commitment and a reduced subservience to Moscow; the French party went barely half-way; the Greek hardly moved in that direction. Not one of these parties can claim that its policy has been rewarded by success.

For their part, the Socialist parties have reason to congratulate themselves on their refusal to become embroiled with the Communists. The electorate has tended to reward them where they took their stand on democratic and more specifically on market principles, tempered with the demands of a social conscience. A similar trend can be noted in Britain with the good performance in the local elections of the SDP-Liberal Alliance. Democratic Socialists everywhere can only profit by sticking to that policy blend.

Wrongful use of insolvency

MR ALEX FLETCHER, the minister responsible for effecting the first major reform of UK insolvency law this century, is eager to reassure the business world that the Government's proposals will not deter honest and responsible directors from joining companies that need their skills. The Institute of Directors and other interested parties are unconvinced.

The Department of Trade and Industry has received a stream of memoranda on the White Paper on Insolvency Reform since it was published on February 29. Its objectives have been universally welcomed. The means by which it hopes to achieve these objectives are however, seriously questioned.

Unpaid creditors

No one disputes the need to check rogue liquidators and to end the so-called "Phoenix syndrome"—where directors close one company and open up others, sometimes using the assets of liquidated businesses and leaving unpaid creditors and hardship in their wake. The White Paper also proposes to improve the position of the unsecured creditor, although it has stopped far short of more radical reforms recommended by the Insolvency Review Committee headed by Sir Kenneth Cork.

The Government has decided that the most effective way to stop irresponsible directors is to introduce tough penalties, including a measure of personal liability for wrongful trading. Under existing law, a director is only held personally liable if found to have traded fraudulently, a criminal action which is very difficult to prove in court.

Wrongful trading arises when directors allow a company to trade beyond the point where they know, or ought to have known, that there is no reasonable prospect of meeting its liabilities.

Under the Government's plans, a director of a company which goes into compulsory liquidation will be automatically disqualified for three years from being a director of any company. The argument is that a director should never allow a company's affairs to deteriorate to the point where compulsory liquidation by the court is required. The new, simplified insolvency procedures should *provide a company* with plenty of opportunity to recognise insolvency, to take early action to protect its assets in the interests of the creditors and, where possible, to allow the business to continue as a going concern.

Directors say that, as the proposals stand, they would hesitate to accept a directorship for fear of automatic disqualification even if they had acted entirely properly. For investment bankers who often hold a number of directorships, such a disqualification would bring an abrupt end to their career as they would have to resign immediately from all their posts.

Mr Fletcher is confident that proper safeguards can be provided, while still retaining the *penalty of disqualification*. He says the legislation will give clear guidance to the court as to the test to be applied to establish a personal liability, and insists that the Government does not intend to enshrine in statute a rigid and inflexible statutory duty. In practice, the court will have discretion to examine individual circumstances.

It will take all the skills of the *parliamentary draftsman* to produce an acceptable formula by the autumn, when the Bill is scheduled to be published. Yet the Government's general approach is right. Although the penalties are indeed drastic, anything less is unlikely to deter irresponsible directors from the wilful abuse of limited liability. Too many people, both trade creditors and consumers have lost their livelihood already from *such malpractice*.

Unfair imposition

The legislation will also bring a much needed jolt to businessmen who take on a clutch of non-executive directorships as mere sinecures, without assuming their proper responsibilities to the company and its shareholders.

Although directors are naturally very uneasy about these proposals, they can take some comfort from a likely change in the controversial section 152(4) of the Social Security Act 1973. This places indiscriminate personal liability for outstanding national insurance contributions on directors of a company—a penal and unfair imposition. Under the proposed insolvency legislation, directors will incur personal liability only if they are proved to have allowed wrongful trading to occur. The hope is that the definition in the Social Security Act will be changed to allow similar protection.

The legacy of Harry Truman

Enduring mark of a 'great little man'

Godfrey Hodgson assesses the record of America's first post-war President on the 100th anniversary of his birth

IF HE wasn't a great man, someone said of President Truman, who was born in a small town in southern Missouri 100 years ago today, then he was surely the greatest little man there ever was.

What is so attractive about Harry Truman is that the littleness was all in his regard for himself, the greatness in his conception of his office and of the part he wanted his country to play in the world.

Historians of the presidency have rated Truman among the *near-great, rather than the* great. No-one would claim for him the versatile genius of Thomas Jefferson, the moral grandeur of Linc - or the political mastery oi Franklin Roosevelt. But in one respect his achievement can indeed be compared with any of those who have occupied the White House either before or since: in the sheer scope and impact of the decisions he was called on to take, an impact which is still felt today.

When Trum:- succeeded to the presidency, Roosevelt had raised it to a peak of authority unsurpassed in American history and only equalled, perhaps, when Abraham Lincoln was in the White House. And he inherited this exceptional degree of influence over the power and policy of the U.S. at a time when the country's power in the world was also at its zenith.

"*Neither Genghiz Khan, nor* Alexander the Great, nor Napoleon, nor Louis XIV of France," said Truman himself, who was a great reader of history, had as much power as the President of the U.S.

This sober recognition of his power was combined with an equally exceptional humility. "Boys," he said to the first reporters *he saw after he* was sworn in, "if you ever pray for me, pray for me now. I don't *know whether you fellows* ever had a load of hay fall on you, but when they told me yesterday what had happened, I felt like the moon, the stars and all the planets had fallen on me. I've got the most terribly responsible job a man ever had."

The embodiment of American faith in the common man

The humility should not be confused with any lack of self-confidence. "There are probably a million people in this country who could do the presidential job better than I," he said on another occasion. "But I've got the job, and I'm doing the very best I can."

There has never been much doubt, since those first weeks in the White House, about Harry Truman's willingness to take decisions. Where there is disagreement is over the wisdom of those decisions. Nor has anyone doubted that he did his best. The question is, how good was that best?

Most Americans now look back on the time of the Truman administration with some nos*talgia. It was, after all*, the zenith of American victory and success.

The threat from Hitler and from the Japanese warlords had been destroyed. The threat from the Soviet Union had not fully materialised. The U.S. had gone into World War II as one of eight great powers; it had emerged without a serious rival either militarily or economically.

Truman himself, in the popular view, is bathed in the same golden glow of retrospect. He was, for one thing, the embodiment of the American faith in the common man, the personification of the log cabin myth.

It is true that his father, as well as dealing in mules, farmed six hundred acres of good pairie land. Still, the future President did grow up in the world of Huckleberry Finn, which was born in the same year as he was. And it is also true that he never went to college, and that at the age of 38 he was a bankrupt haberdasher.

His virtues were the old-fashioned American virtues; even his vices were good old American ones as well. He was brave, tough, and honest; he liked whisky, poker and bad language. He was a good soldier, a model husband, a fond father, and—to a fault, given the croneyism of his last years in the White House—a loyal friend.

In France in World War I he was afraid neither of the enemy nor of a wild battery of *Missourian horse artillerymen* who had broken the spirit of five officers before him.

He also practised the traditional American virtue of plain speech. When the music critic of the Washington Post wrote an unkind review of his daughter Margaret Truman's singing, he was surprised to get a handwritten note from the President. "Some day," that statesman wrote, "I hope to meet you. When that happens, you'll need a new nose, a lot of beefsteak for black eyes, and perhaps a supporter below."

When he told Stalin's foreign minister, the stone-faced Molotov, in similar language what he thought of Stalin's behaviour over Poland in 1945, the Russian said he had never been talked to like that in his life before.

"Carry out your agreements," snapped Truman, "and you won't get talked to like that again."

Harry Truman, giving 'em hell, without fear or favour, *is remembered as the last* heroic President, and the model of what a truly presidential *President ought* to be.

The reality of the Truman presidency is a little different. Domestically, its record was patchy, and in the end disastrous. In 1952, at loggerheads with Congress, besmirched by a long string of more or less minor scandals, and with the President's popularity around 25 per cent in the approval polls, it looked more like Jimmy Carter's administration in 1980 than Franklin Roosevelt's.

The President's power in the world might be greater than that of Genghis Khan or Napoleon, but it was in the Truman White House that Professor Richard Neustadt formed his famous theory that the only power a President has is the power to persuade.

It was Harry Truman who used to muse, in his last days in the Oval office, about how frustrating the incoming General Eisenhower would find it. "He will sit there," he used to say, "and he will say, 'Do this! Do that!' And nothing will happen. Poor Ike — it won't be a bit like the Army!"

The thankless task of trying to operate the presidency in domestic affairs had disabused him of the hope he had once expressed to his Secretary of State, Dean Acheson, that the presidency was "a sacred and temporary trust, which he was *determined to pass on* unimpaired by the slightest loss of power or prestige."

In international affairs, his experience of the presidency was very different. He inherited a unique conjunction of circumstances: the new supremacy of the Rooseveltian presidency, global victory, bipartisan consensus to rebuild a postwar world.

For Truman, a world that has long since set in concrete was still malleable clay to the potter's hand

For Harry Truman, a world that has long since set in concrete was still maleable clay to the potter's hand. Here are the major decisions it fell to this ordinary man of extraordinary character to take, most of them irreversible.

1—Abruptly, he ended Lend-Lease in May 1945, exacerbating the latent hostility of Stalin and deepending all Europe's postwar economic problems.

2—Reluctantly, he accepted the Soviet domination of Eastern Europe, and by allowing rapid demobilisation of the great American forces in Europe deprived the U.S. of any hope of influencing the fate of the Eastern half of the continent.

3—He took the decision to drop not one but two atomic bombs on Japan. It was at the end of his very first cabinet meeting that the Secretary of War, Henry Stimson, stayed behind to tell him about the atomic bomb, of whose very existence he had been ignorant as Vice-president.

When he got the news of the first successful Los Alamos test, during the Potsdam conference, he had no difficulty in deciding to order the dropping of two atom bombs on military targets, but in crowded cities, after an ultimatum and without any harmless demonstration of the new weapon's destructive power.

Truman's advisers were telling him that a successful conquest of Japan by conventional means would take a year and cost half a million American and countless Japanese lives. The Hiroshima bomb can perhaps be justified on these grounds. It is hard to defend the bombing of Nagasaki. And however cogent the case for the destruction of Hiroshima, it was an irreparable act, one which for ever deprived the American people of a certain claim to historical innocence.

4—He grasped the case put to him by Dean Acheson, George Marshall, Will Clayton and others that the U.S. must commit itself to shore up Western Europe with men and money. The defence of Europe, Truman said, "is essential to the maintenance of the civilisation in which American life is rooted."

The enunciation of the Truman Doctrine in March 1947, pledging the U.S. "to support free peoples who are resisting armed subjugation by armed minorities or by outside pressures;" the Marshall aid plan of June 1947; the decision to launch the Berlin airlift in July 1948; the North Atlantic treaty of April 1949: those were the successive stages of this commitment and the title deeds of Truman's claim to be, with Marshall and Acheson, the saviour of Western Europe.

5—With an equal lack of hesitation, he refused to intervene on behalf of Chiang Kai-shek in the autumn of 1949. He thus accepted the accomplished fact of the Chinese revolution. He has been anathema ever since with the American Right for having "lost China," but the decision avoided a bloody and futile war, and has made the recent improvement of Sino-American relations possible.

6. In March 1950, after receiving intelligence reports that the Soviet Union was building a thermonuclear bomb, Truman approved an urgent programme to build an American hydrogen bomb.

7. That same year, he approved NSC 68, the paper that proposed a massive permanent tripling in U.S. defence budgets and a rearmament programme predicated on the assumption that, as the paper put it, "the cold war is in fact a real war in which the survival of the free world is at stake."

8. *By deciding*, promptly and on his own, to send UN troops to Korea in the summer of 1950, he saved South Korea from the grim regime that still rules the northern half of the peninsula. By not seeking the consent of Congress, he stored up constitutional problems for future Presidents. The subsequent decision to cross the 38th parallel was a costly mistake. But it did not cancel the benefit of the original decision to save South Korea.

9. By dismissing Gen Douglas MacArthur after the rank insubordination of his April 1951 speech. ("There is no substitute for victory . . .") he reasserted the primacy of civilian over military authority. He should have sacked MacArthur in December 1950, when he was talking about using atomic bombs to end the war—and Truman momentarily seemed to agree. But it was better done late than never, and Truman paid by incurring the unforgiving hatred of the Right.

It has fallen to few men in history to take so many decisions of such moment. Truman did not take them alone. Great men like Marshall, Acheson, George Kennan stood at his elbow. But the final decision was his. At the Truman Library, in his old home in Independence, Missouri, you can still see the little bronze sign he kept on his desk in the White House. It says: "The buck stops here."

A little sign on his desk saying: 'the buck stops here'

Several of those decisions are questionable. Some are perhaps indefensible. For better or for worse, though, they created the world we live in.

In Western Europe, in particular, we now chafe at the consequences of the commitment Harry Truman made, as President Reagan will discover once again when he comes to London next month. We should perhaps have the grace to recognise *that we may well owe* the freedom to argue about what we ought to do now to the clear vision and decisive actions of the strangely great little man who came to Washington aged 51, only 10 years before he became President, telling all and sundry that he was "as gree as grass and as ignorant as a fool about everything worth knowing."

Men and Matters

Revivalist Angus moves to London

Lever Brothers, the main U.S. arm of Unilever, has been a poor breeding ground for the group's top management in recent years.

But Michael Angus, who took on the job of chief executive *in the depths of Lever's financial crisis four years ago*, is now returning to London with his reputation much enhanced.

As one of the three-man executive committee which runs Unilever he has emerged as a strong contender for the chairmanship of the group.

When he arrived in the U.S., Lever was in a parlous state. Its profits had peaked back in the mid-1960s when it made $15.3m two years in succession. But it had lost ground progressively since then, sinking decisively into the red in 1978.

The company remained in loss until 1982. But by last year Angus had it back in profit to the tune of $14.6m and had lifted sales from $952m in the year before he arrived to $1.57bn.

That transformation has been achieved by heavy investment and an aggressive new product policy which has taken the fight to the old enemy, Procter & Gable. It has shaken Procter's hold right across the range of detergents and soaps, exciting considerable Wall Street speculation about the future of Procter itself.

The next part of the revival strategy is likely to see the group embarking on a similar competitive drive in the margarine business. The U.S. margarine market is by no means as developed as the European, where Unilever has established its leadership and a range of products that could well provide a base for North American development.

True to form, Unilever will say little about its plans. But it recently acquired Shedd's Food Products, a margarine manufacturer, which looks as though it will be the vehicle for this expansion.

And the fact that Angus's successor will be Gordon Stevens, a senior Unilever executive with plenty of experience on the food side of the business, suggests that this is a sector which will now be receiving added attention.

Kilts off?

Bagpipes, kilts, and bare Scottish knees, have proved effective weapons for terrorising the enemy in many battles and skirmishes, both ancient and modern.

The image of Scotland militant is proving too much, however, for the newly-elected Labour council in Edinburgh. As a gesture of solidarity with the peace movement the council is threatening to leave the steering committee of the city's Military Tattoo.

The dust has yet to settle in Scotland's capital city after the upheaval of last week's local elections.

But I am told that the continuation of the tattoo—an important tourist attraction—is assured. The city does not *support the spectacle with cash*. And the military authorities are confident that the show will go on as usual this season in the incomparable setting of Edinburgh Castle.

Less certain, however, is the long-term future of the Edinburgh International Festival, which attracts some of the best orchestras and opera and ballet companies in the world in August and September each year.

Charges that the festival is "elitist" and "lavish" are being levelled by the city's new rulers. They want radical changes to make it, as they say, "more community oriented." One alarmed festival official says, "That means street theatre and jollifications in school halls."

However, the festival's grant from the council of £560,000 should be available for this year at least. The previous administration buttoned it up before losing office.

"Operator—I keep getting offensive phone calls offering me shares in British Telecom"

Hot Irish waters

Who would be an Irish politician? Last week's report of the New Ireland Forum on possible new developments on the age-old Irish Question has had a good response.

Less reported is the fact that all four party leaders primarily involved have managed to end up in some degree of trouble with their own parties as a result.

*Prime Minister Garret Fitz*Gerald has found that the report has been too much for one of his leading backbenchers to stomach.

H. John Kelly, professor of Roman law and jurisprudence at University College, Dublin —and just about the last orator left in Irish politics — has refused to sign the Forum report. He is thought to be offended by the report's insistence on Irish unity as being the "wish" of all the participants.

Rumblings also within the ranks of the opposition leader Charles Haughey's Fianna Fail party.

Concern is being expressed over Haughey's stance at the interviews after the report's publication — at which he said only Irish unity offered a solution to the problems of Northern Ireland.

The doubts are being expressed mainly by Eoin Ryan, *a member of the Irish Senate*. A successful businessman and a senior party figure his complaints carry special weight as he cannot be portrayed as yet another challenge to Mr Haughey's leadership.

John Hume of the Northern Ireland Social Democratic and Labour Party (SDLP) is widely regarded as the architect of the Forum. But it has provoked divisions in his camp as well. In particular his deputy Seamus Mallon, is seen as favouring the Haughey line, whereas Hume and FitzGerald now see eye to eye.

Even the Irish Labour Party, which might be expected to stay above these nationalist squabbles, has been drawn in. Mary Robinson, Ireland's best-known civil liberties lawyer, shares the doubts of her legal colleague John Kelly, and has made them known to the party *leader Dick Spring*.

Fears of leaks led the Irish leaders to conduct most of the crucial negotiations between themselves leaving the rank-and-file out in the cold. The four leaders probably wish now they could keep them there.

Unanimous

The legal profession prides itself on its ability to wrap a cutting insult within unexceptional language.

But this exchange between a dissatisfied Englishman and a Scottish law firm is hard to beat.

"If this is an example of Scottish law," wrote the outraged Englishman, "Thank God I'm not a Scotsman."

The law firm replied: "Messrs .... acknowledge Mr ....'s letter and join with him in thanking God he is not a Scotsman."

Observer

INTEREST RATES

London gets the Wall St twitch

By Anthony Harris

THIS morning, for the first time in something like three years, dealers in the London bond and money markets will be biting their nails ahead of the monthly money supply figures, out later today. The neurosis which seems to have gripped Wall Street every week for years—to the detached amusement of the London markets—seems at length to have spread to this side of the Atlantic. Even the currency markets were moving sterling at the end of last week in response to rumours and guesses about future interest rate movements, just as if pounds were dollars.

Diehard monetarists can enjoy a certain amount of *schadenfreude* (a masochistic version of "I told you so") at this development; but for more pragmatic people, this does not look like a healthy development.

For weeks the diehards have been sending out circulars explaining that the broadly-defined money supply is likely to go through the top of its target range of growth — a target range which they see as over-generous in the first place. The rise in house prices and the persistent weakness of sterling have been cited as confirming that policy has been too lax. Both developments, in their view, are a warning of future inflation; we need tighter policy and higher rates for domestic reasons, and now the markets are enforcing them.

In the U.S., the Federal Reserve tightened monetary policy

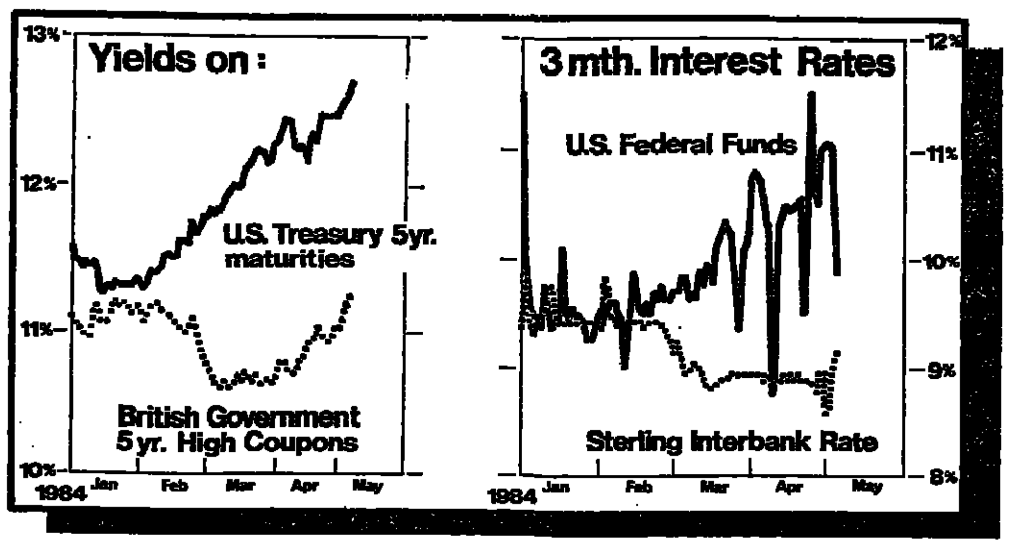
This is not the majority view, though. Even so stern an analyst as Gordon Pepper of Greenwells, once the high priest of City monetarism, argues that there is very little cause for concern in the money supply. The building societies are flush with money, as is usual when rates have been falling, and this has inflated PSL2—the very broad measure which is not targeted—but the other figures have behaved themselves.

It is possible that Sterling M3 will overshoot this month, but even if it does, it is too soon to sound the alarms. The gilts market has been depressed by developments on Wall Street, so there may have been something of a pause in funding — with money piling up in pension fund bank accounts waiting for the moment to buy. But official policy tries to look past these wobbles to the underlying trend: as a Bank of England director once candidly put it to me: "Monetary policy hardly means that we have to stop the economy in its tracks because pension funds are warehousing their income for a few weeks."

The broader picture — apart from the exchange rate — backs up this calmer view. Banks are short of creditworthy borrowers, and building societies are advertising their funds for the first time in many years; this hardly argues that credit is seen as absurdly cheap. The last time this happened, interest rates were below the rate of inflation and the money supply was exploding; the picture is very different now. Most growth forecasts are still disappointingly modest, and inflation is, at worst, in a rut. Why slam on the brakes?

The answer is not hard to find; the seemingly inexorable rise of the dollar, and the expected further rise in dollar interest rates. On the majority view, we may well suffer a rise in interest rates, but it will be for external rather than internal reasons. Some argue, indeed, that it has already happened. The rise in money market rates last week — a rise which the authorities stolidly refused to follow in the very short market which they control — was caused, they say, by speculators borrowing sterling to invest in higher-yielding dollar securities.

This sounds like sense, but it begs some large questions. The largest is clear from the chart. If U.S. rates automatically pull up London rates, how was it possible for London rates to fall through February and March, while New York rates were on a strong, if bumpy, rising trend? It was not until April that the bond market started responding to the pull of New York, and not until last week that the fever spread to the London money markets.



London rates fell through February and March while New York rates were on a strong, if ***bumpy, rising trend. It was not until April that the bond market started responding to the pull of New York***

The answer, as we now know, is that the monetary policy of the U.S. Federal Reserve was tightened towards the end of March—a fact which we have learned earlier than usual because the Chairman of the Boston Fed made an indiscreet speech. Events before and *after that change were quite* different; but it is the events of February and March, when rates in London and New York were so strikingly "decoupled," that seem to be little understood.

What in fact was happening was the long forecast weakening of the dollar—but it was falling in the forward market, which is for specialists, and not in the spot market, which makes the headlines. The forward discount mirrors the gap in interest rates, since arbitrage keeps the covered differential fairly narrow.

In February and March growing worries about the U.S. trade deficit, the Budget deficit, and an unsustainable rate of growth depressed Wall Street, and discouraged overseas buyers of U.S. securities of all kinds. It needed a rapidly widening interest rates differential between New York and all other centres to keep the spot dollar firm.

In short, a rise in U.S. rates which reflects market worries about the dollar and the U.S. economy will not tend to spread to other markets; but a firming which is caused by tighter Fed policies is quite a different matter.

Official action of this kind turns interest rates from an effect into a cause; funds do move, and the tightening *spreads toother markets. Once* news of tighter policy leaks out, this effect is reinforced, because sentiment about the dollar improves.

For the same reason the recent fall in the U.S. forward indicators did not bring the expected relief. If it had simply reflected a natural slowdown as the U.S. boom matured, rates would have tended to ease in line with expected credit demand. But since the Fed took the initiative the chain of causation ran the other way: tighter conditions depressed the stock market and raised interest rates, and these imposed changes were the main influences in depressing the forward indicators.

Economics, incidentally, is full of relationships like this, which reverse the signs when the chain of cause and effect is reversed: for example, accelerating growth raises prices, but an imposed rise in prices—VAT or oil—slows growth.

This is still not the end of the story, though. U.S. growth is now slowing, and that may well be a signal for the Fed to ease its squeeze a little; indeed, the fact that U.S. bank reserves recovered late in April, and short rates softened, is suggestive. What is more, the Fed policy will certainly displease the U.S. Treasury, which is more monetarist than the central bank.

The Administration argues that since the U.S. money supply is well under control (much more so than ours) the Fed should not be trying to run the real economy. Its concern is the value of money, and U.S. inflation remains low. It would certainly be ironic if the monetarist hard-liners in London see their forecasts come true simply because the Fed is adopting a non-monetarist policy.

This analysis may help to explain some of the underlying forces operating in the London market; but it does not fully explain why the London market is being so nervous about the whole thing. What I have written above should be liberally seasoned with salt: the current development of the U.S. economy is still very much anybody's guess.

The development of the UK money supply is also a bit of a mystery. Even today's figures have been guessed at as a rise in M3 of anywhere between ½ per cent and 1½ per cent—quite a gap in one month. The guess must take in not just Government borrowing (high), but:—

● gilts sales (badly overestimated in the market last month);

● national savings (heavily advertised on television, and giving the bloated building societies a run);

● official sales of commercial bills (which simply shift an unchanged total of borrowing from the public sector to the banks);

● the growth of banks' own reserves (now being built up ahead of heavy future tax payments), and

● the total mystery of the effect of foreign transactions, which not even the officials can forecast reliably.

Forecasting the total of so many unknowns looks like a game for gamblers rather than investors and as in Wall Street, where there is a weekly guessing game about the money supply, a lot of players will come up with the wrong answers. The twitchiness of London last week did not just reflect U.S. policies, but Wall Street patterns of behaviour. This could prove the most significant lesson of the week.

The possibility of Markets more near-sighted and volatile

It seems possible at least that the pressures of competition in a rapidly changing City, and the lower dealing costs which competition promises, will make markets increasingly near-sighted and volatile. As in Wall Street the pressure for performance, the low cost of taking positions and the growing influence of futures trading lead to a more and more feverish interest in short-term developments. Whether or not the lines on the charts converge again soon, the London line may become increasingly jagged at any level, as in New York. The rest of us will have to learn to get a little less excited.

Lombard

Friedman versus 'Iron Triangle'

By Samuel Brittan

THE PROBLEM about any new work by Milton and Rose Friedman is that one large group of people will reject it without reading it and another large group will accept it all before they have read a word. Both attitudes are misguided.

The Friedmans have just published a new popular book, *Tyranny of the Status Quo*. Its underlying premiss, stated in the concluding sentence is: "There is nothing wrong with the United States that a dose of smaller and less intrusive government will not cure." This belief will surprise no one; and their best statement of the case is still to be found in their 1962 Capitalism and Freedom, which I wish they would bring up to date.

Their main purpose in the present volume is to explain why the Reagan Administration has not succeeded in reducing the role of government in the U.S. economy. People of all ideologies would benefit from reading it. The Friedmans have an enviable eye both for key trends in official statistics, and for the significant detail and anecdote. Neither their supporters nor their opponents *will "know it all" already.*

The authors' main explanation is the "iron triangle" of beneficiaries, politicians and bureaucrats. Politicians buy people's votes with their own money. Each voter hopes that his favourite project will be financed by other voters. The beneficiaries from any particular scheme—farm support, subsidised export credit, or old-fashioned pork barrel schemes—are highly concentrated. The losers are dispersed among vast numbers of consumers, each of whom has a relatively small stake in any particular issue. Moreover, the benefits of intervention or subsidy are immediate and obvious: the drawbacks long term and subtle.

The Friedmans emphasise in a most interesting passage (pp 42 et seq.) that protective policies, e.g. for farmers, attract so many new people into the activity that in the end the farmers themselves do not benefit; and when the protection is withdrawn there is a genuine loss.

This "simple comparison has relevance to a wide range of problems — restrictions on trucking and busing, restrictions on airlines, controls on television, radio, and telephones, price ceilings on crude oil and natural gas, licensing of occupations, rent controls, agricultural price supports, tariffs and import quotas, and on and on. All are cases of private wealth created by measures that harm the public," but which once in place are difficult to eliminate without expense, hardship and genuine injustice.

The section of the book most likely to interest monetary connoisseurs is not so much the criticisms of the Fed, which are fairly well known, but the exploration of how a futures market in price indices could reduce the harm done by uncertain and unstable inflation. Company X has to tender at a fixed price for a project which will take three years. It could offset the risk of inflation being higher than anticipated by buying a futures contract linked to inflation, and it will then receive the difference if inflation is higher than anticipated—or pay the difference if it is lower.

On their general theme the *Friedmans see only two ways of* defeating the "iron triangle." The first is via the President, who, unlike Congress, has some incentive to put the general interest above sectional ones. (Friedman believes that a political leader's main chance to make changes is in his initial six to nine months' honeymoon period — in the Thatcher case, however, most of the privatisation schemes were formulated in the second half of the last Parliament.)

The second way is by constitutional amendments through which democracy deliberately puts a brake on itself in its longer-term interest. The authors give an exposition of one of the proposed amendments for a balanced budget, complete with a limit to the growth of taxes, which is much more moderate and economically sophisticated than I had realised from the other side of the Atlantic — although not without snags.

Tyranny of the Status Quo, by Milton and Rose Friedman, Secker and Warburg, £8.50.

Letters to the Editor

Dealing with the debt crisis

From Dr Otmar Emminger

Sir, — In your Leader of May 2, you deal with the proposal of "capitalising" some of the *interest payments due from* high-debt countries, ie, converting them into medium-term bonds or similar forms. In your view this would be simply an attempt to evade realities and postpone the day of settlement.

One has to compare it, however, with the present method, where banks are putting up "fresh money" so as to enable debtor countries to repay the interest charges. This "fresh money" is given in the form of medium-term bank loans at variable interest rates. It is this method which makes the debtor country subject to the "short-term twists of U.S. monetary policy" (which you rightly deplore), and forces creditor banks to extend new loans to countries which are already in the "sub-standard" category.

Quite a number of banks have already indicated that they will be unable to continue this type of "evasion" very much longer. Thus, this method may lead to a breakdown of bank solidarity in the face of the debt crisis.

A (partial) conversion of interest maturities into, say, medium-term bonds at fixed-interest rates would enable those banks which feel unable to participate in the "fresh-money approach" to obtain an instrument which, in case of need, they could convert into liquidity in the market (perhaps at a discount). It would make it possible to arrange a fixed rate of interest (instead of the variable rate for "fresh money") and in special cases a concessionary fixed rate — perhaps as a counterpart to certain policy promises of the debtor country, or as a reward for good adjustment policies.

In comparison with the present method, such a "capitalising" of interest charges would certainly be more realistic, and would enable them to deal with special cases "in a longer-term perspective."

(Dr) Otmar Emminger.
(former President of the Deutsche Bundesbank).
Hasselhorstweg 36,
600 Frankfurt am Main.

Forestry in Scotland

From Mr P. Burns.

Sir,—I found your editorial on forestry (April 30) to be uncharacteristically superficial in a number of important ways.

No mention was made of the cost, particularly to Scotland, of conifer forestry. The destruction of the countryside that is necessarily entailed has never been adequately explored, to my knowledge. Forestry is, in all probability, a net loser of jobs rather than a gainer. It removes the possibility of other agricultural input, severely impinges upon other agricultural activity located nearby and has a most serious effect on the tourist industry and recreational pursuits. The tourist industry in particular is probably now the greatest single employer in Scotland. It is likely to remain so for the foreseeable future. The loss of the hillsides and the glens is a serious blow. There is an argument that should be obvious to the effect that the destruction of this countryside is in itself a bad thing, but in addition the economic argument falls to be weighed.

Additionally, how can you so glibly assume that there will be demand for this product in 30 to 40 years time? Did anyone 25 years ago predict correctly commodity demands for oil, coal, wheat or gold? Indeed with the much vaunted disappearance of the office as we know it, and its replacement by electronic equipment, an impressive argument can be mounted to suggest that this is a product that is already past its peak demand.

Paul Burns.
111, Union Street, Glasgow.

Export orders for capital goods

From the Director General, Engineering Employers' Federation

Sir,—Samuel Brittan writes (May 3) as if lost export orders for capital goods would not harm the UK economy. He implies that other industries would increase their exports to fill the gap. Perhaps they would — but not instantly. Resources do not shift from one industry to another overnight. In the meantime there would be a genuine net loss to the economy.

Capital goods industries involve longer lead-times and require more extensive expertise than most other industries. Technological capability can quickly be lost but is difficult or even impossible to regain once engineering and manufacturing teams are broken up. In supporting capital goods exports, UK and foreign governments are preserving their national industrial capabilities.

The important point — not tackled at all in the Treasury's "Byatt report" — is whether or not the capital goods industries could be replaced by others (as yet unidentified!) which would generate more value added. That question should be pondered very carefully indeed by the advocates of irrevocable UK withdrawal from industries which are clearly regarded by foreign governments as vital to their own economies.

James McFarlane.
Broadway House,
Tothill Street, SW1

Accounting for inflation

From Mr D. Fenn

Sir—Mr Martin O'Regan (May 1) asks for clear and simple guidelines in dealing with accounting for inflation.

What could be clearer and simpler than the historic profit or loss balance carried down in the profit and loss account and balance sheet at the annual cut-off date amended below the line by all current cost adjustments, however calculated, and therefore treated as appropriations of historic, ie, actual profits and charged to current cost reserve accounts, within the historic balance sheet.

If inflation rises then higher and higher appropriations should be made to reserves to prevent dividends being paid out of capital and should inflation stay static then the appropriations would assume a downward movement and even disappear and enable distributions to take place.

Is this all too simple for the collective mind?

D. J. Fenn.
The Gatehouse,
Wentworth Drive, Wentworth,
Surrey.

Fair taxation of women

From Mr P. Lawson

Sir,—I have noted with interest the continuing correspondence on this subject. I can recall no mention of the anomaly which exists in respect of relief for mortgage interest. Married couples enjoy a £30,000 limit, while couples who live together and are therefore taxed separately enjoy twice this amount. If the Chancellor tackles this whole subject I trust a consistent policy of Victorian values will prevail so that both circumstances are treated equally.

P. B. Lawson.
160, Northolt Road,
Harrow, Middx

Land lying idle

From Mr D. Redfearn

Sir,—It is to be hoped that Mr Henry Law's eminently intelligent comments on our tax system that appear from time to time in these columns will eventually lead to more general consideration of wider issues.

What, for example, of the absurdity that, with land lying idle — 250,000 acres of urban land alone according to a recent estimate by the Civic Trust — about 4m people are being positively prevented from working on it to satisfy their own needs? Those of them who are not yet completely demoralised by welfare and social services that humiliate more than help would spring into action if given the chance.

The clue to this problem is in the attitude of the possessing classes. "We need a few million unemployed to bring them to their senses," I heard an Exeter master printer say on the occasion of a printers' strike in the times of comparative prosperity after the second world war. "All I need is an acre of land to keep my family," said a poorly-paid West Indian odd-job man, "but nobody will let me have one." "No," I said, "you should have come here about five hundred years ago, before the enclosures really got going." That's the idea — deny them land, make them compete for jobs, and your supply of cheap labour is assured.

Our tax system perpetuates this grotesque situation, though not entirely in the way one might expect. It is said with some truth that income and sales taxes are passed back to employers. In fact, after much effort, they are passed back further still, to landowners; for capital too must have its rewards if investment is to continue at all. There is still, however, enough ground rent left to make landowning worth while for its own sake. Why not then put our eggs in one basket, and, by taking all actual and potential ground rent as revenue, instead of some of what is actually realised, both bring in more revenue and give real meaning to the Conservative policy of free enterprise? Enterprise would in truth be free when once it was worth nobody's while to stand in its way by "investing in" land instead of using it.

David Redfearn.
15, Fennell's Close,
Burton Road, Eastbourne.

FINANCIAL TIMES

Tuesday May 8 1984

Terry Byland on Wall Street

Detroit in cyclical reverse

IN A WEEK in which fickleness seems to have been the investment slogan, Wall Street has been particularly fickle towards the Detroit motor stocks. No sooner had Ford, General Motors and Chrysler surged ahead with the rest of the market at midweek than the stocks were easing back to the accompaniment of *whispers about a shortening* in the traditional cycle of the stock sector.

On Friday, of course, the shares fell with the rest of the market, despite the news that new car sales jumped by 36.6 per cent in the closing days of last month.

Measured against the rest of the industrial stock market, the car making stocks have certainly taken a beating. Falls of around 12 per cent in Chrysler and General Motors and of 14 per cent in Ford since *the beginning of the year compare* harshly with a dip of 2 per cent in the Standard & Poor's 500 stock index favoured for comparative purposes by the auto stock analysts – or of 6 per cent in the narrower Dow Jones industrial average.

This negative performance might seem a little unfair, since it took place over a period when Detroit continued to push sales and earnings ahead. Last week's news on end-April sales indicated that the momentum is still there, and that the 1984 total should be higher than 8m units.

STOCK	PRICE	YIELD
Gen Motors	64½	4.9
Ford	35⅞	3.3
Chrysler	23⅞	0.6
S & P 500	159.11	4.54

Moreover, the U.S. car buyer is turning back to big models which fell out of favour in the days of the recession and the energy crisis, and is also taking the optional extras *which are a feature of the U.S. car* trade. Both these factors increase profitability for the motor manufacturers.

Mr David Healey, motor industry analyst at Drexel Burnham Lambert, believes that it may be 1986 before the inevitable slowdown in the car industry shows itself. Meanwhile he considers an annual sales rate of 8m to 8.5m sustainable. He rates Chrysler and General Motors as stocks to hold, and Ford, whose price has weakened a shade more *than the others, as a* buy.

But motor stocks are nothing if not cyclical and their current levels may be better measured against previous cycles than against the present trends of the industry.

By these criteria, price earnings multiples on the Detroit three are low. The traditional pattern has been for high earnings multiples at the beginning of the cycle to be reduced as the cycle approaches its peak to about half of the market average p/e.

The pattern was followed at first this time around, with multiples of nine times earnings in December dwindling as the new year progressed. But the pattern seems to have gone awry recently and p/es of three on Chrysler and Ford and of four on General Motors compare with about 11.5 on the Standard & Poor's 500.

Two factors seem to have unsettled Wall Street's views of the sector, and were behind some attempts to sell stock when the market jumped higher at the middle of last week. In the first place, motor analysts have turned uneasy ahead of the next round of wage negotiations with the United Auto Workers, due to open in July. Also Wall Street knows full well that Detroit's profits have been inflated by Japanese import restraint and that support in Washington for a fifth year of such protection is waning.

Neither of these factors has been rendered any more palatable by the *widespread coverage accorded to* the substantial salaries and bonuses paid to the senior executives at GM and Ford. If wage costs rise and increased Japanese competition is allowed, then Wall Street's conventional measuring sticks may no longer apply.

Among the more disillusioned of the motor analysts is Mr Scott Merlis of Shearson/American Express, who suggests that it may be a mistake to stay with the cyclical growth argument. He thinks that p/es on the carmakers may be too high, even at present levels and the S & P comparison notwithstanding.

To turn the final screw, he recommends clients to switch from the domestic auto manufacturers to, yes, you've guessed it, Honda and Subaru America.

U.S. OPINION POLLS PUT MONDALE AHEAD IN DEMOCRATIC PRESIDENTIAL RACE

Hart battles to revive campaign

BY REGINALD DALE, U.S. EDITOR, IN WASHINGTON

SENATOR GARY HART yesterday shrugged off mounting suggestions that he should withdraw from this year's Democratic presidential race and battled fiercely to resuscitate his flagging campaign in today's primary votes in Ohio and Indiana.

Mr Hart said he still intended to be the Democratic nominee, despite his crushing defeat by former Vice-President Walter Mondale in Saturday's Texas caucuses and moves by Democratic leaders to unite the party behind Mr Mondale.

A new opinion poll yesterday delivered another sharp blow to Mr Hart, suggesting that Mr Mondale had moved into a 16-point lead as the voters' choice for the nomination after trailing Mr Hart by nine percentage points in March. The nationwide poll of registered voters conducted for the newspaper USA Today showed Mr Mondale with 43 per cent support against Mr Hart's 27 per cent.

Mr Hart nevertheless predicted that he would do "extremely well" in the remaining primaries and said that he could envisage no circumstances in which he would drop out of the race before July's national convention in San Francisco. He insisted that he was rapidly closing the gap in Ohio and Indiana.

With returns in Texas still incomplete, Mr Mondale had won 50 per cent of the caucuses vote against 27 per cent for Mr Hart and 16.4 per cent for the third remaining candidate, the Rev Jesse Jackson. Mr Mondale's supporters claimed that he would ultimately pick up almost two-thirds of the Texas delegates.

Mr Jackson, who won his second primary in a low turnout in Louisiana on Saturday, also reaffirmed his intention of carrying his candidacy all the way to the convention. His forces, combined with those of Mr Hart, would have the clout to stop Mr Mondale, he said in an appeal to Mr Hart not to drop out.

Mr Hart, who was expected to win easily in caucuses in his home state of Colorado last night, continued to insist that the loss of individual states was not fatal to his strategy. He maintains that he will win the support of enough delegates to secure the nomination at the convention – once it has become clear to the majority that he, and not Mr Mondale, represents the only hope of beating President Reagan in November.

That contention was challenged yesterday, however, by another opinion poll which showed that Mr Reagan would defeat either candidate by a handsome and virtually identical margin if the election were held now. The Los Angeles Times poll showed Mr Reagan beating Mr Mondale by 53 to 41 per cent and Mr Hart by 52 to 41 per cent.

Mr Mondale was showing no signs of relaxing in his bid for a major share of the 368 convention delegates from Ohio, Indiana, North Carolina and Maryland, which all vote today. "These things can go either way," he said.

The hope of his supporters, however, was that Mr Mondale will run strongly enough today to make it virtually impossible for Mr Hart to overtake him in the pre-convention delegate count. Mr Mondale now has 1,234 delegates out of the 1,967 needed to win, not counting the Texas results, according to unofficial estimates. Mr Hart has 681 and Mr Jackson 236, with 344 uncommitted.

Both Mr Hart and Mr Jackson are reacting with considerable reservations to efforts by the party leadership to organise peacemaking procedures for settling disputes

Snags again threaten $450m oil refinery project in Thailand

BY CHRIS SHERWELL, SOUTH EAST ASIA CORRESPONDENT, IN SINGAPORE

SNAGS have occurred in an Anglo-French consortium's bid to confirm a controversial $450m contract to expand an oil refinery in Thailand, raising again the prospect that the work could be reopened to international tender.

Details of the hitch have surfaced three months after a visiting French Government delegation compromised with the Thai authorities *on a formula to save the project* when it was threatened earlier. Now concern is growing about its future.

The project involves the expansion of the Sri Racha refinery operated by the Thailand Oil Refinery Company (Torc), which is 49 per cent – owned by the Government through the Petroleum Authority of Thailand (PTT), a state agency.

The contract was awarded in April 1982 to Davy McKee of Britain, Technip of France and Procofrance, a French subsidiary of a U.S. company. But lengthy negotiations on financing were finally called off last November by the Thai Industry Minister, Mr Ob Vasuratna, when the banks demanded stronger government assurances over the project and Mr Ob threatened to call for new tenders.

The contract was kept alive after the British and French governments stepped in with outright grants and soft loans and officially-backed buyer credits. But both governments wanted Thai Government guarantees in relation to the credits; something Bangkok said it legally could not give for a company in which it had less than a 70 per cent stake.

Under February's compromise PTT was to receive and channel the funds, once key changes had been made to its structure. But that idea has now failed. An alternative suggestion, backed particularly by the French, that PTT simply raise its shareholding in Torc to 51 per cent – making it clearly a state operation – has also failed to be taken up.

Continued insistence – chiefly by France – on a Thai Government guarantee could now jeopardise the project altogether. That has attractions for the Thais, in as much as the project's viability might be improved if it comes on stream when oil prices are higher and for other potential bidders, notably the Japanese, who have always insisted they can carry out the project at least as cheaply.

But it is not clear that the Thais are themselves agreed whether to reopen the project to tender or put it off altogether.

Ian Rodger in London adds: Davy yesterday declined to comment on the latest developments. On the day last November when uncertainty about the project first became publicly known, Davy shares lost about 12 per cent of their value on the London Stock Exchange.

Mr H. P. N. Benson, the chairman, said in his interim statement in January that the project had been delayed by financing problems "but we are now more hopeful about the outcome."

Long-term pay deal mooted for UK miners

By Our London Staff

COAL BOARD officials are actively considering the option of trying to clinch a longer-term pay deal with British miners to give some pay stability to the coal industry. At the same time the miners are signalling a new row over wages – including a warning of renewed industrial action.

The pay moves from both sides of the industry are for the longer-term, after the end of the present strikes over pit closures. Miners have had no pay increase for 18 months, since they have refused to accept the National Coal Board's pay offer of 5.2 per cent.

Though Mr Ian MacGregor, NCB chairman, has hinted a number of times in the current dispute that this offer might be withdrawn, it is still on the table and its implementation now, even when backdated, will considerably reduce its cost.

Beyond the present strikes – though principally because of the instability they have introduced into the industry – the NCB is understood to be considering suggesting to the National Union of Mineworkers the possibility of a two or even three-year pay deal.

The thinking reflects pressure for market stability from many of the NCB's customers. One senior official said: "When this is over, we must be thinking about a two to three year deal. That's essential."

Indications of the NUM's own likely thinking on pay after the strikes are set out in resolutions in the unpublished preliminary agenda for the union's annual conference in July.

The militant Yorkshire area of the NUM is demanding that the NCB keep the miners at the top of the industrial wages league by conceding a "substantial" pay increase.

Meanwhile Scottish miners' leaders said yesterday they would press railwaymen to stop shipments of iron ore to the Ravenscraig steelworks after 29 lorryloads of imported coal for the Scottish mill avoided a big miners' picket by going through a back gate.

The miners' restriction on coal deliveries to Ravenscraig to make their industrial action bite has opened a rift with the steel union, which says the mill could close down if production were stopped.

Yesterday saw the biggest turnout of miners at the big strip mill, but the 800 men were easily outnumbered by a heavy showing of Strathclyde police. About 300 pickets were also outnumbered outside the Hunterston terminal on the Ayrshire coast, where coal and ore is transferred from ships to rail and sent up to Ravenscraig.

The rail union said it has already halted the one remaining trainload of coal to be delivered to the mill, leaving the entire daily requirement of 2,600 tonnes to be brought in by road.

Advance fee fraud increasing

By Charles Batchelor in London

ADVANCE FEE fraud, in which the victim is persuaded to pay an advance fee to obtain a loan which never materialises, is becoming a growing problem in London. Developing countries appear to be particularly vulnerable to it.

Several Commonwealth governments set up a Commonwealth Commercial Fraud Office 2½ years ago to combat this and other international economic crimes. In this time, advance fee fraud has taken *up 70 per cent of its investigators'* time and accounted for a third of the 300 cases dealt with by the office.

The problem facing the authorities is there are only two men fighting the crime and they have to deal with frauds on Third World governments involving promised loans worth as much as $45bn.

In most cases the fraudster will only demand a small percentage of the loan sum as his fee for arranging the loan, but even a fraction of a percentage point of several billion dollars can represent a sizeable loss to the economy of many countries.

Loans for smaller sums have frequently been "negotiated" for businessmen desperate for funds.

London, with its large banking community is frequently the venue *for arranging these frauds*, although the larger City banks are usually able to detect attempts. The smaller banks outside the City are more vulnerable, however, and individual branch managers have been taken in.

*The problem of obtaining evi*dence and pursuing charges which usually involve an overseas victim, a British fraudster and a source of funds in Switzerland or the Middle East, means that often little can be done to trap even known criminals.

Bankers study ways to ease debt crisis

BY WILLIAM HALL IN NEW YORK

LEADING officials of the world's major central banks yesterday began a three-day conference in New York on possible longer-term solutions to the international debt crisis amid signs that there is growing pressure for a fresh official initiative to help the world's heavily indebted countries.

The New York Federal Reserve Bank, which is hosting the special conference, refused to disclose what was discussed yesterday, but the representatives of the 20 or so central banks attending are known to be discussing "concrete and practical steps" to help re-establish the financing of the less developed countries (LDCs) on a "sustainable basis."

Mr Anthony Solomon, president of the New York Fed, told a congressional banking committee last week that while growth of 3½ per cent per annum in 1984 and 1985 in the industrialised countries "would certainly help debtors," it was "not enough to resolve their problems."

Separately, Mr Donald Regan, the U.S. Treasury Secretary, said on television at the weekend that "there has to be a better way to handle international monetary matters" than on a case-by-case basis.

Yesterday's meeting in New York concentrated on the types of policy, institutional and financial changes that may be necessary to assure adequate financing for the LDCs over the coming decade. Mr Ernest Stern, a senior vice-president of the World Bank, was scheduled to give the first presentation, followed by papers from Mr Y. Canevi, governor of the Turkish central bank, on how to combat the problem of capital flight, in addition to other issues.

Mr Jacques de Larosière, managing director of the International Monetary Fund (IMF), discussed the scope for an expanded role for the IMF in helping to ensure sound adjustment policies, and Mr William Rhodes, senior vice-president of Citibank, gave a luncheon address on the lessons of the 1982-83 rescheduling efforts.

Mr Lewis Preston, chairman of Morgan Guaranty, discussed the extent and limitations of bank lending to LDCs, including consideration of how to rationalise the existing debt on a long-term basis and how to support new flows over time.

Central banks attending the special meeting, the first of its kind since the international debt crisis broke two years ago, are anxious to play down its importance.

Fed criticises central bank, Page 2; Freidman versus the iron triangle, Page 19

Lagos unveils tough budget

Continued from Page 1

less than N3.2bn, a reduction of some 17 per cent.

General Buhari stressed the importance of maintaining Nigeria's credit worthiness in the international markets, and set aside more than N2.5bn to service public sector debt – more than double the amount allowed by the last government.

He said that current debt service costs, as a proportion of export earnings was estimated at more than 28 per cent.

Thyssen chief stays in office

Continued from Page 1

ly's 20 per cent stake firmly behind Herr Spethmann and against Herr Kühnen and Herr Sohl, has agreed to bury the hatchet.

Herr Sohl, 78, who enjoys the undefined position of honorary chairman, was also applauded by both boards for his achievement in retrieving the company from the Allies after the war and building it up.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	21	70	Dubrovnik	F	18	64	Malaga	–	–	–	Salzburg	T	13	55
Akrotiri	S	22	72	Faro	F	20	68	Malta	S	23	73	Seoul	S	24	75
Algiers	S	23	73	Florence	S	22	72	Manila	C	31	88	Singapore	R	32	90
Amsterdam	C	11	52	Frankfurt	C	7	45	Miami	C	29	84	Stockholm	R	8	46
Athens	S	22	72	Funchal	F	20	68	Milan	S	20	68	Strasbourg	R	7	45
Bahrain	S	33	81	Geneva	C	16	61	Moscow	S	23	73	Sydney	R	13	55
Bangkok	S	33	91	Gibraltar	F	22	72	Munich	R	13	55	Taipei	S	24	75
Barcelona	–	–	–	Guernsey	C	8	46	Nairobi	–	–	–	Tangier	C	19	66
Beirut	S	22	72	Helsinki	S	14	57	Naples	S	20	68	Tehran	–	–	–
Belgrade	S	27	81	H Kong	S	25	77	New Delhi	S	42	108	Tel Aviv	C	22	72
Berlin	F	9	48	Innsbruck	C	7	45	New York	C	21	70	Tenerife	F	22	72
Biarritz	F	15	59	Inverness	C	7	45	Nice	S	17	63	Tokyo	S	24	75
Blackpool	C	11	52	Istanbul	F	15	59	Oporto	S	17	63	Toronto	S	17	63
Bordeaux	C	16	61	Jersey	C	9	48	Oslo	C	10	50	Tunis	S	29	84
Brussels	C	10	50	Jo'burg	S	21	70	Paris	R	6	43	Valencia	–	–	–
Budapest	F	24	75	Las Palmas	S	22	72	Prague	–	–	–	Venice	–	–	–
B. Aires	R	17	63	Lima	S	24	75	Reykjavik	R	8	46	Vienna	F	21	70
Cairo	S	29	84	Lisbon	S	18	64	Rio de J'o	S	33	91	Warsaw	C	15	59
Cape Town	–	–	–	Locarno	C	17	63	Rome	S	22	72	Zurich	C	15	59
Caracas	C	30	86	London	F	10	50								
Casablanca	–	–	–	Los Angeles	S	26	79								
Copenhagen	F	11	52	Luxembourg	C	4	39								
Corfu	S	22	72	Madrid	C	17	63								
Dublin	S	9	48	Majorca	–	–	–								

Readings at mid-day yesterday.

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

U.S. divided on imports

Continued from Page 1

the head of the car workers' union, has said that he would like to see Japanese companies making investments in the U.S., employing American workers and paying U.S. taxes.

The debate within the Reagan Administration about the car quotas appears to reflect different priorities of Mr Brock and Mr Regan. Mr Brock has for several months been anxious to press ahead with initiatives aimed at resisting protectionist trends in world trade, and this week will host a 17-nation meeting of developed and developing country trade ministers in Washington.

THE LEX COLUMN

Virtuous circles in the City

Gilt-edged and equities belong in the same marketplace, so the official line would have it. But the lack of arbitrage between these two markets at present could almost amount to grounds for divorce. This lack was encapsulated in their behaviour last week, when equities climbed new peaks day after day, apparently heedless – until a token set-back on Friday – of the knock-kneed mood in the gilt-edged market. *Gilt-edged investors had* enough to worry about with base rate rises in the wind and rising U.S. bond yields dragging the dollar back into fashion, not least at the expense of sterling.

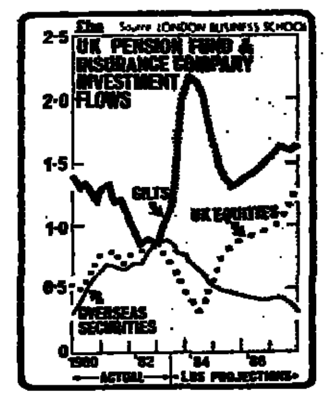
Yet equities are having none of this pessimism. Indeed UK share prices have been rising for nearly 18 months since they last had any worthwhile support from the fixed interest markets. Nor has there been any help from Wall Street, where the Dow Jones index is about 8 per cent lower than its peak last *November. The marked rise in equi*ties since January – the All-Share is up about 14 per cent – has persistently looked as if it was overstretching the yield gap between shares and gilts. Maybe it has mostly cast doubt on the strength of the elastic.

Overshooting

Most of the reasons for thinking about a levelling-off in the equity market have equally been made to look a bit platitudinous in recent weeks, not least by the way company results have overshot the targets raised by City of London analysis.

Profits are not merely better than expected – in the case of cyclical volume-sensitive companies often a great deal better – but dividends have been increased with a liberality to which company chairmen were giving few clues ahead of the reporting season. The market has begun to think in terms of dividend rises of 15 per cent, while the growth of profits might not fall far short of 25 per cent.

One effect of this unexpectedly prolonged profit acceleration should be a further build-up in corporate liquidity this year, on top of the roughly £7bn financial surplus that companies accumulated in



1983. The rights issue famine so far this year is one of several helpful consequences for the equity market; a third of the way through 1984 the market has been asked for less than 10 per cent of the £2.5bn handed over in 1983.

Moreover, the abundance of *ready money is tending to favour* cash over paper as the weapon employed in takeover deals. This, in turn, transfers company liquidity to the institutions; the backwash from BAT's cash takeover of Eagle Star is still sluicing around the market. Short of outright takeover, but on the same tack, GEC is surely not alone among industrial groups in parking some of its spare loot in shares, at least temporarily throwing the burden of decision-making back into the City.

Conversely, if the market sees Lord Weinstock *as taking on the* unlikely role of a New York-style risk arbitrageur, that is not exactly going to discourage bandwagon speculation. Even if GEC's celebrated position in the shares of Distillers is being held in a benignly custodial spirit, the act of assembling it has none the less injected quite a lot of fizz into DCL's gin.

Rights issues apart, the great tap on the equity market this year was expected to be the British Telecom and Reuters flotations. As things have fallen out, the City has succeeded in cutting the likely size of these issues and, in the case of BT, probably delaying the moment of impact as well. Far from putting funds aside for several months in advance, the institutions have threatened to withhold underwriting (from Reuters) and perhaps prefer financing their subscription to the large issues by selling stock when the issue is actually in sight. This tactic suggests that the Duke of York approach to gilt-edged issues has not been forgotten. It also has the advantage that – in a perfectly rigged market – all prices would conveniently fall towards zero on the day that the underwrit*ing had to be completed.*

Although there is a circularity in this weight of funds argument, the circuit can be virtuous, at least until something happens to interrupt it. Recently the wiring seems to have been in pretty good order. Even a fund manager who feels in his bones that the market is overvalued – in terms of earnings or dividend growth – finds that a cushion of uninvested cash makes it more comfortable not to sell. If nothing else, it is harder to justify selling in a still rising market if the trustees can see that you are already knee-deep in cash.

Investments on Wall Street or in gilt-edged, by contrast, have been showing rather disappointing overall returns. Institutions in any case appear to have completed the catch-up phase of overseas investment, and while a high rate of gilt-edged purchases can be more or less taken for granted, funds seem likely to drift back into UK equities *faute de mieux*. Nor have overseas investors entirely slaked their appetite for UK equities.

The increasingly rosy view of dividends should take some of the strain off the yield-gap theorists. At least prospectively, the higher rate of distribution is going to keep equity yields high enough – at around 4 per cent – to prevent the emergence of a new reverse yield gap at the moment when equity yields fall below those on index-linked stock. For much the same reasons, it has become possible to argue that the market really is no longer grossly ahead of the game. It is a brave man, against that background, who would sell the market. Another month of the coal strike, with the dollar getting out of hand, and such nonchalance might be in short supply.

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SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Tuesday May 8 1984

Lenders pressed by Latin American debt developments

BY PETER MONTAGNON IN LONDON

LAST WEEK was far from reassuring for anyone watching developments in the Latin American debt crisis. On Friday Dr Henry Kaufman warned that U.S. interest rates would rise "spectacularly" before the present cycle reached its peak.

Argentina has failed to meet its April 30 deadline for agreement with the IMF on an economic recovery programme, and today, representatives of leading central banks will end a three-day meeting to discuss the longer term implications of the crisis.

Taken together these developments seem to smack of impending emergency. Yet that was never the impression these central bankers intended to convey when they first began planning their meeting late last year.

In any case even the dour Dr Kaufman says that a dramatic rise in interest rates is not imminent – it is only expected late this year or in 1985 – and Argentina's failure to reach agreement with the IMF came as no surprise to the banking community.

There is little prospect of an immediate shift in gear on the debt crisis. The central bankers are not expected to take any decisions, but that they are meeting at all suggests they may be prepared to start taking a more serious look at some of the longer term "solutions" to the problem against a background of growing concern about how long the present ad hoc approach to the debt problem can last.

Pressure on the monetary authorities is coming from two sides. On the one hand debtors are becoming restive at the prospect of indefinite austerity, on the other the slow progress of Mexico's recent $3.8bn loan through the market shows that smaller banks are becoming weary of ever-recurring demands for them to put up fresh money.

In the shorter term, eyes are focused on June 30 when a solution must emerge for Argentina's problems. Otherwise a new showdown is likely over interest arrears to U.S. banks.

In talks last week, however, leading creditor banks on the Advisory Committee for Argentina agreed that little progress could be made until Argentina agreed with the IMF. Many bankers still remain sceptical of that happening before the June deadline.

Elsewhere Sweden, with its U.S. floating rate note, has stolen the limelight from the Eurocredit sector of the capital markets with the near doubling to $1.5bn of its floating rate issue in the U.S. last week, but a trickle of new credits continues.

Hamilton Oil (GB), is raising the equivalent of £200m to finance the development of the Esmond Gas complex in the UK's North Sea sector. Bank of Montreal is leading the loan with Manufacturers Hanover and National Westminster. The deal has a maximum maturity of eight years and is broken into two tranches – one of £180m and one of $30m – but margins have not been disclosed.

Another energy deal put into limited syndication last week was the $190m, eight-year credit for Pemref, a joint venture between Saudi Arabia and Mobil. Proceeds cover 10 per cent of the total cost of building an oil refinery in Saudi Arabia.

The loan bears a margin of ½ per cent over Eurodollar rates and repayments begin after a grace period of three years. Agent for the loan is Saudi American Bank with Bank of Tokyo as the Japanese co-ordinator and Pemref running the books.

In the Far East Malaysia has increased the tax-spared portion of its $500m credit to $200m from $100m. This follows a strong response from banks seeking a tax credit in the UK after the recent budget sharply increased taxation on British banks.

INTERNATIONAL BONDS

UBS in show of Swiss strength

BY MARY ANN SIEGHART IN LONDON

UBS SECURITIES produced a show of strength in the Eurodollar bond market last Friday, demonstrating the placing power of the big Swiss banks.

Just as new issue managers were moaning that bonds with 13¼ per cent coupons were not moving despite a U.S. inflation rate of less than 5 per cent, UBS launched an issue on its own behalf with a 12¼ per cent coupon for seven years.

There was no chance for a real market price to be made. UBS's bid rose from 98¾ at the time of issue to 99¼ by the end of the day. It invited only three co-managers: S.G. Warburg, which arranged the interest rate swap, Morgan Stanley, which has done swaps for UBS before, and Deutsche Bank.

After the Fiat fiasco in March when underwriters which had gone short were told they were not going to be given any bonds, few in the market dared to sell paper they did not own back to UBS.

UBS can issue a bond at 100 basis points less than the U.S. Treasury because it has a vast number of discretionary accounts under management and most of these clients love Swiss names, which carry rarity value in the market. It is placing more than half the issue itself, of which a large proportion will go in-house and most of the rest to two big Swiss banks.

This sort of pricing makes life very difficult for other new issue managers. "How do you explain to a triple-A borrower that they have to pay 100 basis points more than UBS?" asked one plaintively. The answer is that some Eurobond investors, and particularly Swiss portfolio managers, are notoriously yield-insensitive.

Moving to the U.S., Sweden's floating rate note (FRN) was a huge success. It was nearly doubled – from $800m to $1.5bn – and still there was unsatisfied demand. Everyone won out: Sweden got seven-year funds at a one-year rate, Salomon Brothers made a lot of money, and investors bought that rare instrument, a floater with a one-year life.

BHF Bank bond average		
May 7		Previous
99.490		99.545
High	1984	Low
100.009		98.056

The only participants who should have been licking their wounds were the U.S. regional banks, whose credit Sweden was prepaying. Yet of the 35 or 40 invited into Chase Manhattan's back-up facility, only two or three declined and the underwriting subscriptions on what was then just an $800m deal totalled more than $1.725bn.

Now other borrowers have been flooded with offers to do similar deals, notably Denmark, which may launch one soon.

The rest of the Eurobond market is in a dismal state, mainly because of the appalling performance of the New York market. Only five fixed-rate dollar issues were launched last week and all were swap-driven. Even at realistic coupons, there is very little retail interest and inventories are piling up on lead and co-managers' books. As one dealer asked: "Why should investors buy the new issues at 98½ when they're going to be at 92 or 93 in a few weeks' time?"

The secondary market is also under the weather. Prices fell more than a point last week, not on great selling pressure – there is not enough turnover for that – but each day, dealers marked down prices as the New York market weakened.

Today, tomorrow and the next day, the U.S. Treasury will auction $16.5bn of its paper into a very weak market, so the prospects of a rally are slim.

Moreover, those prospects were not helped by Dr Henry Kaufman who on Friday predicted spectacularly higher U.S. interest rates

Banker calls for better investor protection

BY JOHN WICKS IN ZURICH

THE PAST few years have seen a phenomenal growth of private placements on the Swiss capital market. In the period 1979–83, issues of these medium-term Swiss-franc notes by foreign borrowers amounted to about SwFr 69bn ($30.6bn), including a record of nearly SwFr 20.9bn last year alone.

The run is continuing this year. In the first quarter private placements totalled SwFr 6bn, or about 47 per cent of all capital-export transactions approved by the Swiss National Bank.

In the meantime, however, the National Bank is expressing reservations about how the notes market works. At the bank's recent annual meeting Herr Fritz Leutwiler, chairman, said the bank was looking at what he saw as a "deficiency of investor protection" in this sector.

This statement might appear to come at a strange time, in that the relative importance of private placements in overall foreign borrowing activity is declining rather than rising – from 50 per cent a year ago to less than 50 per cent today. Also, it was the bank itself which eased conditions for the issue of notes as recently as July 1982 as a means to stop Swiss-franc business from going abroad.

In fact, Dr Leutwiler's remarks are not directly connected "with any falling-off of quality in the private-placement sector. There have as yet been no individual cases of "bad eggs" among borrowers, according to the bank. Furthermore, the bank made it clear on more than one occassion last year that it did not intend to introduce new capital-export controls. The bank's stated opinion was that an over-supply of notes – by Japanese borrowers, for example – would lead to a corresponding reaction of the market without any need for official intervention.

Instead, Dr Leutwiler is disappointed that the issuing banks have not taken the opportunity provided by the liberalisation measures of 1982 to publicise notes issues better.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %
U.S. DOLLARS							
C. Itoh ‡¶	50	1989	5	7½		Nikko Secs., Robt. Fleming, Dai-Ichi Kangyo	•
Sweden ‡‖(b)†	1500	1991	7	∅	100	Salomon Bros.	–
PIBA ‡	65	1991	7	9	82½	Paribas, Orion Royal	12.855
Denmark ‡	100	1991	7	13	100	Merrill Lynch	13.000
Sekisui House §	50	1999	15	3¼	100	Nomura Intl., Dresdner, UBS Secs.	•
Credit Agricole ‡	100	1991	7	13¼	100	Chase Manhattan, Paribas, Credit Agricole	13.250
Girozentrale ‡	75	1992	7	12¼	100	CSFB, Mgn. Stanley	–
SBS ‡	100	1991	7	12¼	100	UBS Secs.	12.250
D MARKS							
SKF ‡	100	1989	5	7¾	100	Dresdner	7.275
Ireland ‡	150	1992	8	8⅛	99½	Commerzbank	8.213
SWISS FRANCS							
Central Finance **¶	50	1989	–	3½	100	Bque Mgn Grenfell en Suisse	•
Japan Highway ‡	150	1992	–	5¾	99½	UBS	5.454
Oji Paper Co ‡**§	100	1989	–	1⅞	100	SBC	1.750
Hosoka Paper **¶	50	1989	–	3½	100	CS	•
SWISS FRANCS (cont)							
Dowa Mining ¶	70	1989	–	3½	100	CS	•
Anritsu Electric **§	50	1988	–	1⅞	100	SBC	•
Prov. of New Brunswick ‡	100	1994	–	5⅝	100	UBS	5.625
Nippon Beet Sugar **§	50	1989	–	2	100	Paribas Suisse	•
Toyobo ‡**†	50	1991	–	¼	100	Citicorp Bk Switz	–
Post Master General ‡**	70	1990	–	6⅜	100	SBC	6.375
STERLING							
Trinidad & Tobago	50	2099	25	12½	98.641	Mgn. Grenfell, Schroder Wagg	12.431
LUX FRANCS							
World Bank	1000	1989	5	10½	•	Banque Intl. a Lux	•
ECUs							
SNCI	60	1994	3½	10⅞	99¼	Bque. Gen. du Lux., Bque. Intl. a Lux., Caisse d'Epargne de l'Etat	•
SNCF	45	1994	10	11½	•	BNP, BBL, Paribas	•
SNCF	30	1992	3	6	100	As above	6.000

× Redemption at 157. ∅ Lowest of 0.55 over 3mths unadjusted CDs or 0.40 under prime. * Not yet priced. ‡ Final terms. ** Placement. § Convertible. † Floating rate note: coupon is spread over 6-month Libor. ¶ With warrants. (b) Coupon linked to prime or CDs. ‖ Yen-linked. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

U.S. BONDS

Pessimism deepens as price falls accelerate

WALL STREET's credit markets enter the $16.5bn Treasury quarterly refunding which begins today with a bad headache.

Last week saw the pessimistic mood of the markets deepen and the decline in U.S. bond prices accelerate. The Treasury long bond fell by almost 2½ points to 91⅛ with over half the decline coming on Friday. At that price the long bond, which was auctioned a year ago at 10.25 per cent, was yielding 13.10 per cent compared to 12.81 per cent a week ago.

Short-term rates also continued to move higher gaining between five and 35 basis points last week. The three-month

U.S. INTEREST RATES (%)

	Week to May 4	Week to Apr 27
Fed funds weekly average	10.70	9.98
3-month CD's	10.75	10.46
3-month T-Bills	9.90	9.71
30-year Treasury Bond	12.91	12.70
AAA Utility	14.13	13.88
AA Industrial	13.83	13.63

In the week to April 23 M1 fell by $3.6bn to $532.2bn.

Treasury bill rate closed on Friday at 9.90 per cent compared to 9.70 per cent a week ago and *8.08 per cent a year ago.*

Behind the continued market decline remain several key factors. Firstly there is widespread renewed pessimism about the future course of U.S. interest rates. This was highlighted on Friday by the comments of Dr Henry Kaufman, Salomon Brothers' chief economist, and other senior Wall Street economists.

Dr Kaufman dismissed the administration's current deficit cutting plans as "totally inappropriate" and warned that, without meaningful fiscal action, interest rates would move "spectacularly" higher before the *end of the current business* cycle exceeding their previous cyclical peaks and with the yield on the long bond climbing to 15.25 per cent by the year end.

Secondly there is growing concern that the apparent slowdown in the pace of the U.S. economic recovery in March could have been a weather related aberration and that the figures for April will show the economy continuing to bound ahead. This view was reinforced by the Friday employment figures which showed a larger than expected increase in both hours worked and overall manufacturing employment.

Thirdly, the Treasury auction of $6.5bn in three-year notes today, $5.25bn of 10-year notes tomorrow and $4.75bn of 30-year bonds on Thursday has thrown a spotlight on fears of a credit clash. This week a mere $50m of corporate bonds are scheduled for offering because of the refunding but business borrowing—particularly at the short end—is booming. Last week the Fed reported that bank loans jumped a further $395m in the latest week while outstanding commercial paper grew by $2.5bn bringing the increase so far this year to more than $25bn.

Fourthly, despite the sharp slowdown in monetary growth (M1 fell by $3.6bn in the latest statement week and is now $400m below the bottom of the Fed's 4-to-8-per-cent target range), the markets believe some of the slowdown is due to soon-to-be-reversed seasonal technical factors and that the Fed remains "boxed in" by the underlying growth in credit and concerns about the reignition of inflation.

The dilemma facing the Fed—and the tension within Fed ranks—was apparent in remarks last week by several Fed officials. Mr Frank Morris, president of the Boston Fed, caused a fuss by confirming that the Fed voted to tighten unanimously at its March meeting—a revelation which broke with Fed tradition of not talking about FOMC actions until the minutes of the proceeding meeting are released, on this occasion on May 25.

Against this dismal backdrop in the government market the corporate sector continues to turn in only a marginally better performance. Last week medium and long-term corporate bond prices fell by 1½ points and 1½ points respectively while new issue rates were 25 to 35 basis points higher. Montgomery Ward raised $100m through the issue of five-year notes in a week when the Kingdom of Sweden completed the sale of its $1.5bn issue of floating rate notes.

Paul Taylor

BMB to change capital and make share issue

BY MARY FRINGS IN BAHRAIN

BAHRAIN MIDDLE EAST Bank (BMB), the fast-growing Bahrain bank, is seeking approval for a change in capital structure and the issue of U.S.$200m of new shares over a two-year period.

If the Bahrain Monetary Agency and the Ministry of Commerce give the go-ahead, the two proposals will be put to an extraordinary general meeting on May 26.

The first is to convert the existing 200m partly-paid $1 shares into fully-paid 50 cent shares, thus relieving the shareholders of liability and improving the marketability of the stock.

The second is to issue 400m new 50 cent shares, half of them to institutional investors and half to existing shareholders.

Mr Katch J.A. Katchadurian, the general manager, said the offer to institutional investors would be made during this year, at par, but shares offered in 1985 would probably carry a premium based on book value at the time.

The market value is still slightly below current book values, despite a recent rally in Gulf share prices in both Kuwait and Bahrain.

BMB was incorporated as an exempt (offshore) company in Bahrain in July 1982, following a public share float which was 600 times over-subscribed.

● The Arlabank group, comprising Arlabank International in Bahrain and its wholly-owned subsidiary Arab Latin American Bank in Lima, Peru, has reported its highest-ever quarterly profit of US$6.8m, after provision for doubtful debts.

This is a 70 per cent improvement on last year's first quarter result of $4m, and compares with a profit of $17.3m.

● Another Bahrain OBU, Kuwait Asia Bank, has published an unaudited first-quarter balance-sheet showing consolidated assets of US$465m, which is 3.6 per cent up on the year-end figure of US$449m. Earnings for the period were US$2.6m.

Esso Italiana cuts loss

BY JAMES BUXTON IN ROME

ESSO ITALIANA, the Italian subsidiary of Exxon which is Italy's biggest private sector oil company, last year cut its losses to L29bn ($17.3m) from L58bn in 1982.

The improvement was partly due to the full use of modernised refining capacity which was partly out of action in 1982. The company also benefited from a reduction in the gap between spot and contract prices for crude oil.

Nevertheless the company, whose sales amounted to L5,517bn compared with L5,288bn in 1982, blamed the weakness of the products market and the strong revaluation of the dollar against the Italian currency for its loss. It also attributed the loss to a change in the tax regime on petroleum products which requires tax to be paid earlier.

Esso is investing L130bn this year in continued modernisation of its installations, on top of investment spending of L94bn in 1983.

Reduced deficit at Von Roll

By John Wicks in Zurich

VON ROLL, the Swiss engineering concern, recorded a consolidated net loss of SwFr27m (US$12m) last year, following a deficit of SwFr48m for 1982. This brings cumulative losses since 1978 to SwFr175m.

The group's operating losses were reduced substantially during the year from SwFr 55m to SwFr 10m, while SwFr 21m was obtained from the sale of assets and the liquidation of provisions. However rationalisation and reorganisation measures cost some SwFr 26m, and a further SwFr 12m had to be written off in connection with plant closures.

The Gerlafingen-based parent company has already announced a further loss of SwFr 5.5m against SwFr 5.9m in 1982 and again proposes paying no dividend.

Operating profits of the parent company improved from SwFr 5.66m to SwFr 14.7m in 1983 and there was also income of SwFr 37.6m from the liquidation of reserves and the sale of property. This was more than offset though by SwFr 47.6m of non-recurring losses sustained by subsidiaries—chiefly New Jersey Steel Corporation (NJSCO).

OK Bazaars slides to R39m pre-tax

BY OUR JOHANNESBURG CORRESPONDENT

OK BAZAARS, one of South Africa's larger retail chains, suffered a sharp fall in pre-tax profits in the year ended March 31 as consumer spending swung away from high-margin goods.

Profits fell from R49.4m to R39m ($31.1m), on turnover up from R1.59bn to R1.76bn, reflecting maintenance of market share. The company said there was a pronounced trend away from spending on durables and semi-durables.

The directors are far from optimistic on immediate trading prospects. They say consumer spending is unlikely to expand in 1984 because of high interest rates, tight monetary policy and the increased general sales tax. But the board believes that the current year's earnings should be similar to last year. The group intends to market aggressively and to control expenses and stockholdings.

Earnings fell to 181 cents a share in 1983/84 from 230 cents. Total dividend was cut to 108 cents a share, from 142 cents.

● Imperial Cold Storage, the South African company with interests in meat, poultry, fish and frozen foods, overcame some of the problems associated with drought and recession in the six months to March. First-half turnover rose 8.3 per cent to R582.2m, from R537.7m, while profit before interest and tax increased by 24.6 per cent to R26.5m, from R21.3m. For year to last September turnover was R1.05bn and pre-tax profit R36.8m.

The company expects to show an advance at full-time.

Fresh meat operations maintained market share and showed better results due to improved efficiencies. However, poor grazing forced farmers to market livestock which obliged the Meat Board to support terminal markets by buying large supplies for cold storage.

The interim dividend has been increased to 10 cents a share from 8 cents, on first-half earnings of 27.6 cents, against 25.7 cents. Last year total earnings were 37.2 cents and the dividend was 20 cents.

The first half generally provides the larger portion of annual profits.

Daimler-Benz names Hoernig as R & D chief

By John Davies in Frankfurt

DAIMLER-BENZ, the West German vehicle maker, has named Dr Rudolf Hoernig as head of research and development, after overcoming a show of resistance from employee representatives.

Dr Hoernig's appointment failed to get the necessary two-thirds majority at a supervisory board meeting in March because some employee representatives opposed the move. But his appointment was made last week at a second meeting, requiring a simple majority vote.

Dr Hoernig will initially be a deputy member of the management board, but this is regarded as a formality leading to ordinary membership. He takes over the key responsibility for technical development from Professor Werner Breitschwerdt, who became chief executive after the death of Dr Gerhard Prinz late last year.

INTERNATIONAL APPOINTMENTS

● The newly-formed U.S.$106m BAHRAINI-SAUDI BANK has appointed Mr Richard F Stacks as its first general manager. Mr Stacks was trained at Chase Manhattan Bank and recently completed four years at the head of Saudi Investment Banking Corporation in Riyadh. Chase Manhattan Overseas Banking Corporation is a 20 per cent shareholder in SIBC. Last month the Bahraini-Saudi Bank signed a technical assistance agreement with Security Pacific International Bank.

● Mr Joseph T. Gorman, executive vice-president in charge of the industrial & energy sector of TRW INC., has been elected to the chief executive office as executive vice-president and assistant president. He will work closely with TRW president and chief operating officer Mr Stanley C. Pace. It is planned that he will succeed Mr Pace on January 1 1985, when Mr Pace is expected to be elected vice-chairman of the board.

● Chairman of the executive board of NEDLLOYD, Mr Bernard Ruys, will retire during 1985 in favour of the vice chairman, Mr Jacobus Groenendijk. Mr William Mulock Houwer, a director of Neddrill, is to become a member of the executive board on February 1, 1985. Mr Ton van Langeveld, managing director of

Mr William Mulock Houwer who will join the executive board of Nedlloyd Group on February 1 1985.

August de Meyer will join Neddrill on October 1, 1984. The new managing director at August de Meyer will be Mr Martin van den Ban, managing director of Nedlloyd subsidiary Damco G. C. Transport where he will be succeeded by his assistant, Mr Leo Peskens.

● Mr Robin D. Mills has joined STERLING DRUG INC., as president of Glenbrook Laboratories, Sterling's principal division for marketing of over-the-counter medicines in the U.S. He will succeed Mr Ouellette, who has served in that position since last October. Mr Mills joined Chattem, Inc., in Chattanooga, Tenn., in 1982 as vice-president/general manager of the consumer products division and a short time later was promoted to president of the division.

● Mr Robert Lepage has joined KORN/FERRY INTERNATIONAL as president of Korn/Ferry Europe, a member of Korn/Ferry's international executive committee and as managing director of Korn/Ferry operations in the Benelux Countries. Mr Lepage comes to Korn/Ferry from Spencer Stuart & Associates, where he has been the partner in charge of European and South American operations from May 1977 to June 1983. Most recently, he has been managing director, Belgium and a member of the board.

● Mr Raymond J. Soudah has been appointed chief manager of MIDLAND BANK'S Hong Kong branch from May 1. He succeeds Mr Anthony K. Pearson who is returning to Midland Bank International in London to take up a new appointment. Mr Soudah was previously country treasurer, Japan and division treasurer, Asia Pacific banking group with Citibank in Tokyo.

● Mr James Scully has been appointed a director of CSR, Sydney, following the retirement of Sir Noel Foley. Mr Scully retired recently as Secretary of the Department of Trade, a position he had held for the previous six years. Before that he was Secretary of the Department of Natural Resources for two years and Secretary of the Department of Minerals and Energy, also for two years.

● STANDARD BANK INVESTMENT CORPORATION the South African arm of Standard Chartered has appointed Mr Michael Rosholt as its deputy chairman. He follows Mr Bill Passmore who retired on April 10. Mr Rosholt has been on Stanbic's board since 1969 and among other things is chief executive of the Barlow Rand Industrial and Mining Group and is a director of South African Breweries and the country's largest insurance group, the Old Mutual. He is also chancellor of the University of the Witwatersrand.

● Mr R. P. Douglas, Mr W. W. Stinson and Mr F. H. Tyaack have been elected to the board of COMINCO. Mr Douglas is executive vice-president, Operations, Cominco; president and chief executive officer and a director, Pine Point Mines, and a director, Cominco American Inc. Mr Stinson is president and a director, Canadian Pacific. Mr Tyaack is president and chief executive officer and a director, Westinghouse Canada Inc.

● Mr N. Caissotti di Chiusano previously general manager Banca Nazionale del Lavoro, London branch, has been appointed chief manager head of international division of CASSA DI RISPARMIO DI TORINO, Turin.

FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Alaska Housing 11¾ 94	100	94¼	94¾	−0¼	−0¼	12.74
American Savings 12 89	125	99	99½	−0⅛	−0⅛	12.20
Australia Com. 11⅛ 90	100	97⅜	97⅞	+0⅛	0	11.76
Australia Com. 11½ 95	300	91½	92	0	−0½	12.89
Australia Com. 11⅝ 98	100	91	91½	−0⅛	−0⅞	12.97
Australian I. Dv. 11 89	75	93⅞	94⅛	−0⅛	−0⅜	12.69
Bank of Tokyo 11⅞ 90	100	94⅛	94⅞	−0⅛	−0⅜	13.10
Beneficial O/S F. 12 91	100	93½	94⅛	−0⅛	−0⅜	13.62
Britoil Fin. 11⅞ 90 ...	125	94½	95	0	−0⅜	13.09
Canada 10⅞ 88	500	96	96½	0	−0½	11.96
Citicorp O/S 11¾ 99...	100	96⅝	97⅛	−0⅛	−0⅜	12.21
DNC 11¾ 91 WW	60	92⅞	93⅛	−0½	−0⅜	13.33
DNC 11¾ 91 WW	50	92⅛	92⅝	−0⅜	−0⅜	13.51
Denmark Kgdm. 12 91	100	93⅝	94⅛	0	−0⅜	13.37
Denmark Kgdm. 12¾ 93	100	94⅞	95⅛	−0⅛	−0⅜	13.16
Digital Equip. 11¾ 89...	150	96⅛	96⅝	−0⅛	−0⅞	12.77
Dutch Mines 11⅛ 91 ...	150	92⅛	92⅝	−0⅛	−0⅞	13.11
EDC 11⅛ 89	150	93½	94	0	−0½	12.92
EEC 12 93	50	96⅛	96⅞	0	−0⅜	12.78
EIB 11½ 90	200	92⅜	92⅞	−0⅛	−0⅜	13.20
Eksportfinans 11½ 90...	100	91⅞	92⅜	−0⅛	−0⅜	13.34
Eurofima 12½ 91	100	96⅞	97⅜	−0⅛	−0⅛	13.15
Gen. El Cr. 11 91 WW	200	91⅞	92⅜	−0⅛	−0⅜	12.78
GMAC O/S Fin. 11⅛ 90	100	95⅛	95⅝	−0⅛	−0¼	12.43
Gulf & Western 12⅛ 89	100	97⅜	97⅞	−0⅛	−0⅜	12.78
III 12 89	100	95½	96	−0⅛	−0⅛	13.21
Ind. Bk. Japan 11½ 89	125	94⅞	95⅛	−0⅛	−0⅛	13.00
Ind. Bk. Japan 11⅞ 91	100	94⅛	95⅛	−0⅛	−0⅜	13.05
Int. Ppr. O/S Fin. 12 91	75	96⅞	97⅜	−0⅛	−0⅛	12.63
ITT Finan. 11½ 89 WW	125	97⅛	97⅝	0	−0½	12.13
LTCB 11⅞ 89	100	94½	95	−0⅛	−0⅜	13.38
LTCB 12½ 90	85	97⅛	97⅝	−0⅛	−0½	13.09
Macy O/S 11¾ 91	100	94½	95	−0⅛	−0⅛	12.93
Mitsui Trust Fin. 12 91	100	93⅞	94⅜	−0⅛	−0⅞	13.34
Montreal City 12½ 91...	70	97	97½	0	−1	13.11
Ned. Gasunie 11⅛ 91...	75	92⅞	93⅜	−0⅛	−0⅛	12.80
Nippon Credit 11⅞ 90...	100	93½	94	−0⅛	−0⅜	13.37
Nippon Tele. 11¾ 90 ...	100	95	95½	−0⅛	−0⅜	12.55
Nova Scotia Pr. 11¾ 91	100	94⅞	95⅛	−0⅛	−0⅜	12.90
Ontario Hydro 11⅝ 94...	200	92⅛	92⅜	−0⅛	−0⅞	13.00
PK Banken 12 90 WW	75	93⅝	94⅛	0	−0½	13.42
Prudential 10⅛ 93 XW	150	83½	84	−0⅛	−1	13.17
Quebec Hydro 11½ 92	100	†94⅜	94⅞	0	−0⅜	12.63
Quebec Prov. 12⅛ 94...	150	97⅛	97⅝	−0⅛	−0½	12.71
Royal Bk. Can. 11½ 89	100	94⅞	94⅛	−0⅛	−0½	13.08
Rural & Ind. Bk. 12 91	50	94⅞	95⅛	−0⅛	−0⅛	13.10
Sears O/S Fin. 11½ 88	125	97⅜	98⅛	−0⅛	−0⅜	12.08
Sears O/S Fin. 11⅝ 91	150	94⅛	94⅝	0	−0¼	12.89
S. Pac. O/S Fin. 11⅝ 89	75	†92	92½	0	−1	13.91
Sec. Pac. O/S F. 12 92	100	94⅞	95⅛	−0⅛	−0⅜	13.06
SEK 11½ 89	100	93⅛	93⅜	−0⅛	−0⅛	13.40
Shearson/Amex 12⅛ 94	100	93⅝	94⅛	0	−0½	13.26
Sweden Kingdm. 12⅜ 89	200	96⅞	97⅜	−0⅛	−0⅛	13.19
Texas Inst. Int. 11⅞ 91	150	93⅝	94⅛	0	−0½	13.27
Tokai Asia 12⅛ 91	100	94⅝	95⅛	−0⅛	−0⅞	13.42
World Bank 11⅛ 90 ...	200	92⅛	92⅝	−0⅛	−0⅜	13.03
World Bank 11⅝ 89 ...	200	94⅞	95⅛	−0⅛	−0⅜	12.81
World Bank 12 93	200	95⅛	96⅛	−0⅛	−0⅜	12.86
Yasuda T. & F. 12⅝ 89	100	96½	97	0	−0⅜	13.30

Average price changes...On day −0⅛ on week −0⅜

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Allied Chemical 7½ 94	125	99⅜	100⅛	+0⅛	+0⅛	7.49
Amca Intl. 8⅜ 91	100	100⅝	101⅛	0	+0⅜	8.08
ANAS 8½ 91	150	100⅝	101⅛	−0⅛	−0½	8.31
Austria, Republic 7⅝ 94	200	98⅛	98⅝	0	0	7.84
Baxter Travenol 7⅝ 94	200	97⅜	98⅛	+0⅛	0	7.54
Credit National 8⅛ 94...	200	99⅝	100	0	+0⅛	8.14
Degussa Int. Fin. 7½ 94	100	101	101½	+0⅛	−0½	7.31
EEC 8 92	200	100	100½	+0⅛	+0⅛	7.94
EIB 8 91	250	100	100½	0	−0⅛	7.94
ESCOM 8 92	150	98½	99	+0⅛	+0⅛	8.22
Ferrovie Dello St. 8 91	100	99⅜	99⅞	0	+0⅜	8.07
Finland Rep. 7½ 91 ...	150	97½	98	+0⅛	−0⅛	7.83
Int. Standard Ele. 7⅜ 90	100	101⅜	101⅞	0	−0½	7.06
Mogal Fin. 8⅛ 94	150	99⅝	100⅛	+0⅛	0	8.24
Mitsbshi. H. 3½ 89 WW	300	103	103½	+0⅜	+0⅜	2.78
Mitsbshi. H. 3½ 89 XW	300	85⅛	85⅞	0	+0⅜	7.06
Nippon Flr. 3½ 89 WW	30	†96⅛	97	+0⅛	+1⅛	4.28
Nippon Flour 3½ 89 XW	30	†83½	84½	+0⅛	+0⅞	7.51
OKB 7½ 88	100	99⅜	100⅛	+0⅛	−0⅛	7.55
Pepsico O/S Fin. 7⅛ 94	250	98	98½	0	0	7.35
Reynolds O/S F. 7⅜ 94	125	100⅝	101⅜	+0⅛	+0⅛	7.33
SNCF 8⅛ 93	100	101	101½	+0⅛	+0½	7.92
Sth. Africa Rep. 8½ 91	200	100⅞	101⅜	0	+0⅛	8.28
World Bank 7¾ 89	100	100⅜	101⅛	0	−0⅜	7.48
World Bank 8 93	300	100⅜	100⅝	+0⅛	+0⅛	7.91
World Bank 8 94	200	100⅜	100⅞	+0⅛	+0½	7.90

Average price change...On day +0⅛ on week +0⅛

SWISS FRANC STRAIGHTS	Issued	*Bid*	*Offer*	*Change on day*	*Change on week*	*Yield*
Asian Dev. Bank 6 94...	100	100½	100⅞	−0½	−0⅛	5.91
Australia Comm. 5⅛ 96	60	99⅛	99½	0	0	5.20
Austria Republic 5½ 94	150	99⅛	99⅜	−0⅛	−0⅜	5.60
Cofiroute 7 94	80	102⅜	103	+0⅛	+0⅛	6.59
Consul Press 6¼ 94...	200	99⅝	100	0	0	6.27
EIB 6⅜ 96	125	101	101½	−0½	−0⅜	6.61
Elec. Power Dev. 5⅝ 93	100	100½	100⅞	0	−0⅛	5.53
Finland Republic 5⅝ 94	100	99½	99⅞	0	0	5.80
Int-Am Dev Bank 6 96	100	100½	100⅞	0	−0⅛	5.92
Japan Dev. Bank 5½ 94	100	100⅛	100⅛	−0⅛	+0⅛	5.43
Japan Fin. Corp. 5½ 94	100	99⅛	99⅜	−0⅛	−0⅛	5.60
Kyushu Ele. Pwr. 6½ 92	100	100½	100⅞	0	−0½	6.52
Lonrho Int Fin 6½ 94	100	101	101⅛	+0⅛	+0⅜	6.22
Nat. Aust. Bk. 5⅝ 94...	100	99½	99⅞	0	0	5.67
Newscorp 6¼ 94	175	101⅛	101½	−0⅛	−0⅜	6.05
Nippon Express 5⅞ 94...	100	99	99⅛	0	−0⅜	5.98
Nippon Tel. & T. 5⅝ 93	100	101⅜	102	−0⅛	−0⅜	5.49
Nip. Yusen K. K. 5¾ 92	100	100½	100⅞	+0½	+0⅛	5.64
OKB 5¾ 92	100	100⅛	101	−0⅛	−1	5.61
Soc. Lux. Cnt. 5¾ 93...	100	100⅜	100⅝	+0⅛	−0⅛	5.68
Spain Kingdom 6¼ 92	100	100⅜	101	0	−0⅛	6.11
Sweden Kingdom 5⅞ 94	125	99½	99¾	0	0	5.80
Tohoku El. Pwr. 5¾ 92	100	99⅝	100	+0⅛	−0⅜	5.77
Transcanada Pipe 5½ 92	100	99⅝	100	+0½	0	5.82
World Bank 5¾ 94	200	99	99⅛	−0⅛	−0⅛	5.87

Average price changes... On day −0⅛ on week −0⅛

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. Bk. 7⅝ 94	15	98¾	99¼	0	−0⅛	7.52
Eurofima 7⅝ 94	10	98⅞	99⅛	0	−0⅛	7.50
Int.-Am. Dv. Bk. 7⅞ 93	15	100⅝	101⅛	−0⅛	−0⅛	7.73
New Zealand 7¾ 89 ...	15	101⅞	102⅜	−0⅛	−0⅛	7.12
World Bank 7¾ 93	20	100⅛	100⅝	−0⅛	−0⅛	7.64

Average price changes... On day −0⅛ on week −0½

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Br. Col. Hyd. 12 93 C$	125	94¼	94¾	−0⅛	−0¼	13.00
Br. Col. Tel. 12¼ 89 C$...	70	94½	95	−0⅛	−1	13.06
Canadn. Oc. 12¾ 99 C$	60	†94⅝	95⅛	−0⅛	−0⅜	13.16
EIB 12⅛ 91 C$	80	†96⅛	96⅝	0	−0⅜	12.84
Loblaw 12½ 90 C$	35	†94⅛	94⅝	−0⅛	−0½	13.77
Montreal City 12 90 C$	60	†97	97½	+0⅛	−0⅛	12.80
World Bank 12¼ 90 C$	75	†97⅛	97⅝	−0⅛	−0¼	12.80
EIB 11⅛ 96 ECU	50	100⅛	100⅝	0	+0⅛	11.13
Royal B Cn 10½ 89 ECU	85	97⅜	98⅜	+0¼	−0⅛	10.97
Amro Bank 8 89 Fl	200	98⅞	99⅜	+0⅛	−0⅛	8.22
Amro Bank 8¾ 88 Fl...	100	102⅝	102⅞	0	−0⅛	8.00
Bk Mees & H. 8¼ 89 Fl	100	98⅛	99⅜	0	−0⅛	8.37
Int. Stand. El. 8½ 89 Fl	100	101⅛	101⅞	+0⅛	0	8.06
PHP 8⅛ 89 Fl	75	99⅝	100⅛	0	−0¼	8.27
Rabobank 9 88 Fl.........	100	103⅜	103⅞	+0⅛	0	8.07
OKB 14 86 FFr	400	101	102	0	+0⅛	12.91
Solvay et C. 14¾ 86 FFr	200	101½	102½	−0⅛	0	13.39
BFCE 11½ 88 £...........	50	100	100⅝	0	−0⅛	11.37
Ciba-Geigy Int. 6⅝ 93 £	25	100½	101½	+0½	+0⅜	6.60
Commerzbank 11½ 90 £	25	100⅛	100⅞	0	−0¼	11.36
Denmark 10¾ 89 £	75	96	96½	0	−0¼	11.79
EEC 11¾ 94 £...............	50	97⅛	97⅞	0	−0⅛	11.78
EEC 11⅞ 93 £...............	50	99⅝	100	0	−0⅛	11.91
EIB 10¾ 92 £...............	50	94¼	94⅞	−0½	−0⅜	11.82
Finland Rep. 11⅞ 88 £	60	101¼	101⅞	0	−0⅛	11.37
Forsmarks 10⅝ 99 £ ...	40	95½	96	−0⅛	−0⅞	11.22
IBJ 11¾ 95 £	30	98	98½	0	−0⅞	11.89
III 10¾ 93 £	25	94½	95⅛	0	−0⅜	11.65
Int. Stand. El. 11¾ 89 £	50	98¾	99¼	+0¼	−0⅞	11.38
Ireland 11¾ 94 £	50	94¾	95½	0	−0⅛	12.25
SNCF 11¼ 94 £	60	94¾	95½	−0⅛	−1	12.11
World Bank 10⅝ 89 £...	100	96½	97¼	0	−1	11.48
Electrolux 10 89 LuxFr	500	98	99	0	+0⅛	10.39
CNCL 10¾ 93 LuxFr ...	600	99⅝	100⅝	0	0	10.72

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
Arab Banking 5¾ 96......	0⅛	†98⅜	98⅞	15/9	10.81	10.96
BBL Int. 5 99...............	0⅛	98½	98¾	11/10	11.19	11.34
Banca Naz Lavor 5¼ 91	0⅛	98⅞	99⅛	26/10	11.44	11.55
Bank of Montreal 5 96	0⅛	99⅛	99⅜	27/10	11.19	11.24
Banque Indosuez 5¼ 99	0¼	99	99⅛	21/9	11.06	11.16
Barclays O/S I. 5 2004	0⅛	98⅛	98½	2/9	10.56	10.74
BFG Fin. 5¼ 89............	0⅛	99	99⅛	1/6	10⅛	10.47
Commerzbk. 5¼ 89 XW	0	99⅛	99⅜	21/5	10	10.06
Creditanstalt Bk. 5 96...	0⅛	98	98⅜	23/8	10½	10.70
Dai-Ichi Kangyo 5¼ 96	0⅛	98⅛	98⅜	10/6	5⅛	5.31
Dresdner Fin. 5¼ 89 ...	0	99⅛	99⅜	23/5	10¼	10.33
EDF 5¼ 99	0⅛	98⅜	98⅝	23/8	10.56	10.72
Ferrovie Stato. 5⅛ 99...	0⅛	98⅜	99	31/9	10.69	10.81
Gnndlays Euro. 5¼ 94...	0⅛	98⅛	98⅜	1/8	10¼	10.37
Lloyds Euro. 5 2004 ...	§0⅛	98⅜	98⅝	18/10	11.31	11.48
Midland Int. Fin. 5 99...	§0⅛	98½	98⅜	6/9	10.56	10.71
Mitsui Finance 5¼ 96...	0¼	98⅜	98⅝	1/8	10.56	10.67
Mort Bk Denmark 5¼ 99	§0⅛	99⅛	99⅜	11/8	11	11.06
Neste Oy 6⅛ 94............	0⅛	98⅞	99⅛	23/8	10.56	10.67
Oster Land 5¼ 99.........	§0⅛	98	98½	11/10	11.19	11.39
Societe Gen. 5⅛ 94 ...	0⅛	98⅞	99⅛	15/9	10.18	10.29
Spain 5¼ 97	0⅛	98	98⅛	23/8	10.56	10.76
Sumitomo 5¼ 94	§0⅛	98⅜	99	9/8	10⅛	10.24
Sweden Kdgm. 5¼ 2024	0⅛	†97⅞	98⅛	22/9	11.19	11.42
Takugin 5¼ 94	§0⅛	98⅜	98⅝	15/9	10⅜	10.87

Average price changes... On day 0 on week 0

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
BB Bwn. Boveri 4¼ 95	2/84	108	†99	100	−0⅛	−1.49
Daiwa Sec. Co. 5½ 98...	10/83	481.8	†134½	136	+2⅛	−0.08
Fanuc 3¾ 98	1/84	9142	147⅞	148⅞	−1⅛	35.90
Fujitsu 3 99	5/84	1320	107⅞	108⅜	+0⅛	8.88
Hitachi Cable 5¼ 96......	2/82	515	154½	158	0	−1.71
Honda Motor 5¼ 98......	6/83	884	142⅛	143⅞	+3⅛	4.20
Konishiroku Ph. 4 98...	10/83	673	102⅛	103⅛	−0⅛	6.13
Kyowa Hakko 6¼ 97......	2/83	762	133½	135	−0⅛	12.12
Minebea Co. 5½ 98......	5/83	687	120⅛	121⅛	−0⅛	−0.55
Mitsubishi Elec. 5¾ 98	6/83	396	119⅜	120⅜	+3⅛	4.38
Mitsubishi Heavy 4⅜ 99	1/84	253	107⅜	108⅜	+0⅞	1.77
Murata 3½ 99	2/84	2939	131⅛	132⅛	−0⅛	30.92
Nippon Oil Co. 3¾ 99...	3/84	1052	119⅜	120⅜	+0⅛	2.48
Nippon Oil Co. 6½ 98...	4/83	964	132⅝	133⅝	+0⅞	2.79
Nissan Motor 5¾ 98 ...	4/83	700	112⅛	113⅛	+1⅛	14.32
Olympus Optic. 6⅜ 97...	12/82	1157	103⅛	104⅝	+0⅛	17.63
Ono Pharm. Co. 3⅞ 98	3/84	8480	169½	170½	+2⅛	3.15
Orient Leasing 5⅝ 98...	6/83	2880	153⅜	154⅜	+0⅛	−4.28
Secom 5 98	11/83	2820	209⅞	210⅞	+0⅛	5.48
Yamaichi Sec. Co. 5 98	8/83	449.5	134⅛	135⅛	+0⅛	−0.86
Yamanouchi Ph. 4 90...	10/83	1808	102⅛	103⅛	−0⅛	26.09
Nippon Oil 2¾ 92 SwFr	3/84	1052	117⅜	118⅜	+0⅛	−1.86
Nippon Shin. 2 92 SwFr	3/84	807	100⅛	101⅛	+0⅛	21.02
Settsu Ppr. 2⅝ 92 SwFr	4/84	677	116⅜	117	−0⅛	−0.63
Asics 6 92 DM	12/83	520	108½	109½	+0⅛	20.16
Sum Realty 6¼ 92 DM	2/83	365	186	186⅝	−1	−2.42

EUROBOND TURNOVER

(nominal value in $m)

	Cedel	Euro-clear
U.S. $ bonds		
Last week ...	8,444.7	15,828.1
Previous week	5,230.1	12,468.9
Other bonds		
Last week ...	1,864.2	914.0
Previous week	1,716.0	1,419.8

* No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn = The current coupon. C.yld = The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv. date = First date for conversion into shares. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The list shows the 200 latest international bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Kredietbank NV; Credit Commercial de France; Credit Lyonnais; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Generale du Luxembourg SA; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Union Bank of Switzerland; Akroyd and Smithers; Bank of Tokyo International; Blyth, Eastman, Paine, Webber International; Chase Manhattan; Citicorp International Bank; Credit Commercial de France (Securities) London; Daiwa Europe NV; EBC; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Merrill Lynch; Morgan Stanley International; Nomura International; Orion Royal Bank; Robert Fleming and Co.; Samuel Montagu and Co.; Scandinavian Bank; Societe Generale Strauss Turnbull; Sumitomo Finance International; S. G. Warburg and Co.; Swiss Bank Corporation International; Wood Gundy.

Closing prices on May 4

NEW ISSUE

These Debentures have not been registered under the United States Securities Act of 1933 and may not be offered or sold in the United States of America or to nationals or residents thereof. These Debentures having been sold, this announcement appears as a matter of record only.

MAY 1984

U.S. $1,000,000,000

TEXACO CAPITAL N.V.

(Incorporated in the Netherlands Antilles)

11⅞% Convertible Subordinated Debentures Due 1994

Convertible into Common Stock of and guaranteed on a subordinated basis by

TEXACO INC.

(Incorporated in Delaware)

Co-ordinated by

Credit Suisse First Boston Limited

Goldman Sachs International Corp.

Morgan Stanley International

Lead-Managed by

Credit Suisse First Boston Limited | **Deutsche Bank Aktiengesellschaft**

Goldman Sachs International Corp. | **Morgan Stanley International**

The Nomura Securities Co., Ltd. | **Swiss Bank Corporation International Limited**

Union Bank of Switzerland (Securities) Limited

U.S. $400,000,000
SWISS SYNDICATE

Credit Suisse First Boston Limited
Swiss Bank Corporation International Limited
Union Bank of Switzerland (Securities) Limited

Julius Baer International Limited
Banca del Gottardo
Banca della Svizzera Italiana
Bank Leu International Ltd.
Bank J. Vontobel & Co. AG
Banque Populaire Suisse S.A. Luxembourg
Handelsbank N W (Overseas) Ltd
Lombard Odier International S.A.
Pictet International Ltd
United Overseas Bank S.A. Geneva

Banca Unione di Credito
Banco di Roma per la Svizzera
Bank Cantrade Switzerland (C.I.) Limited
Bank Gutzwiller, Kurz, Bungener (Overseas) Limited
Bank in Liechtenstein AG
Clariden Bank
Compagnie de Banque et d'Investissements, CBI
Crédit des Bergues
Darier & Cie
Ferrier Lullin & Cie, S.A.
Hentsch & Cie
Interallianz Bank Zurich AG
Overland Trust Banca
Private Bank and Trust Company
Sarasin International Securities Limited
Société Générale Alsacienne de Banque – Groupe Société Générale –
Überseebank AG
Verband Schweizerische Kantonalbanken
Wirtschafts and Privatbank Zurich

U.S. $150,000,000
GERMAN SYNDICATE

Deutsche Bank Aktiengesellschaft

Commerzbank Aktiengesellschaft
Dresdner Bank Aktiengesellschaft

Berliner Handels- und Frankfurter Bank
DG Bank Deutsche Genossenschaftsbank
Westdeutsche Landesbank Girozentrale
Arab Banking Corporation – Daus & Co. GMBH –
Baden-Württembergische Bank Aktiengesellschaft
Bank für Gemeinwirtschaft Aktiengesellschaft
Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft
Bayerische Landesbank Girozentrale
Joh. Berenberg, Gossler & Co.
Deutsche Girozentrale – Deutsche Kommunalbank –
Delbrück & Co.
Effectenbank-Warburg Aktiengesellschaft
Georg Hauck & Sohn Bankiers Kommanditgesellschaft auf Aktien
Hessische Landesbank – Girozentrale –
Landesbank Rheinland-Pfalz – Girozentrale –
Landesbank Schleswig-Holstein – Girozentrale –
Merck, Finck & Co.
B. Metzler Seel. Sohn & Co.
Norddeutsche Landesbank Girozentrale
Sal. Oppenheim jr. & Cie.
Trinkaus & Burkhardt
Vereins- und Westbank Aktiengesellschaft
M. M. Warburg-Brinckmann, Wirtz & Co.

U.S. $85,000,000
FAR-EASTERN SYNDICATE

The Nomura Securities Co., Ltd.

Daiwa Securities (H.K.) Limited
Jardine Fleming International Limited
LTCB International Limited
Mitsui Finance Europe Limited
Mitsui Trust Finance (Hong Kong) Limited
The Nikko Securities Co., (Asia) Limited
Sanwa International Finance Limited
Schroders & Chartered Limited
Toyo Trust Asia Limited
Wardley Limited
Yamaichi International (H.K.) Limited
China Development Finance Company (Hong Kong) Limited
The Commercial Bank of Hong Kong Ltd.
Dai-Ichi Kangyo Finance (Hong Kong) Limited
Daiwa Overseas Finance Limited
Express Finance and Investments Limited
IBJ Asia Limited
Mansion House Securities Limited
Mitsubishi Finance (Hong Kong) Limited
Saitama International (Hong Kong) Limited
The Sumitomo Trust Finance (H.K.) Limited
Taiyo Kobe Finance Hong Kong Limited
Tokai Asia Limited
Yasuda Trust & Finance (H.K.) Ltd.

U.S. $365,000,000
INTERNATIONAL SYNDICATE

Goldman Sachs International Corp.
Morgan Stanley International
Credit Suisse First Boston Limited

Algemene Bank Nederland N.V.
Amro International Limited
Banque Bruxelles Lambert S.A.
Banque Nationale de Paris
Banque Paribas
Citicorp Capital Markets Group
Morgan Grenfell & Co. Limited
Société Générale de Banque S.A.
S. G. Warburg & Co. Ltd.
Wood Gundy Limited

Abu Dhabi Investment Company
Al-Mal Group
Arnhold and S. Bleichroeder, Inc.
Banca Commerciale Italiana
Banco di Roma
Bank Mees & Hope NV
Bankers Trust International Limited
Banque Arabe et Internationale d'Investissement (B.A.I.I.)
Banque Française du Commerce Extérieur
Banque Générale du Luxembourg S.A.
Banque Indosuez
Banque Internationale à Luxembourg S.A.
Banque de Neuflize, Schlumberger, Mallet
Banque Privée de Gestion Financière BPGF
Banque Worms
Barclays Bank Group
Baring Brothers & Co., Limited
Bergen Bank A/S
Blyth Eastman Paine Webber International Limited
Cazenove & Co.
Chemical Bank International Group
Continental Illinois Capital Markets Group
Copenhagen Handelsbank A/S
County Bank Limited
Crédit Commercial de France
Crédit Lyonnais
Creditanstalt-Bankverein
Den Danske Bank af 1871 Aktieselskab
Dewaay & Associés International S.A.
Dillon, Read Overseas Corporation
Dominion Securities Ames Limited
Drexel Burnham Lambert Inc.
Enskilda Securities Skandinaviska Enskilda Limited
Euromobiliare
European Banking Company Limited
Genossenschaftliche Zentralbank AG Vienna
Girozentrale und Bank der österreichischen Sparkassen Aktiengesellschaft
Gulf International Bank B.S.C.
Hambros Bank Limited
Hill Samuel & Co. Limited
E F Hutton & Company (London) Ltd.
Istituto Bancario San Paolo di Torino
Kidder, Peabody International Limited
Kleinwort, Benson Limited
Kredietbank International Group
Kuwait Investment Company (S.A.K.)
Lazard Brothers & Co., Limited
Lazard Frères et Cie
Lehman Brothers Kuhn Loeb International, Inc.
Lloyds Bank International Limited
Samuel Montagu & Co. Limited
Nederlandse Credietbank NV
Orion Royal Bank Limited
PK Christiania Bank (UK) Ltd.
Pierson, Heldring & Pierson N.V.
Privatbanken A/S
Prudential-Bache Securities
N.M. Rothschild & Sons Limited
Salomon Brothers International Limited
J. Henry Schroder Wagg & Co. Limited
Shearson/American Express International Group
Sparebanken Oslo Akershus
Svenska Handelsbanken Group
Dean Witter Reynolds Overseas Ltd.

INTL. COMPANIES & FINANCE

Esmark executives to hold 10% stake after buyout

BY TERRY DODSWORTH IN NEW YORK

THE SENIOR executives of Esmark, the Conglomerate which is being taken private in a $2.3bn leverage buyout, are expected to emerge with about 10 per cent of the equity in the new company.

According to *statements from* Mr Donald Kelly, Esmark's chairman and a keen supporter of the move, the equity element in the deal will be set at around $400m to $500m, with the rest of the financing in the form of debt. This compares with Esmark's present long-term borrowings of around $570m, and has led some leading U.S. rating agencies to suggest that they may downgrade the company's listing.

Mr Kelly also revealed that the group is already actively *considering asset sales once the* buyout is complete, while other executives indicated that, in the longer term, Esmark might be re-floated as a public company.

Both the Swift/Hunt Wesson foods business and the international Playtex division were mentioned by Mr Kelly as possible candidates for divestment, although analysts also believe that the *Avis car rental division* might be sold.

The leveraged offer for Esmark comes from Kohlberg, Kravis, Roberts, (KKR) the leading Wall Street practitioner or buyouts of this kind, and if completed will be the largest ever mounted KKR will also have a stake in the equity.

Since the bid, Esmark's shares have traded at over the $85 a share offer price in the expectancy of a counter proposal.

Continued improvement at Elkem

BY FAY GJESTER IN OSLO

ELKEM, the Norwegian metals and manufacturing group, has reported pre-tax profits of NKr 129m ($17m) for the first quarter of 1984, compared with a loss of NKr 35m in the comparable period of 1983.

The figures show that Elkem is continuing the marked improvement in profitability achieved last year, mainly owing to better world demand for two of its main products, aluminium and ferro alloys. Turnover rose from NKr 1.45bn to NKr 1.84bn.

Positive trends in the aluminium and ferro alloy market continued in the early months of 1984, and earnings were satisfactory. The market for aluminium remains good, with high demand and stable prices. That for ferro alloys has improved considerably, but growth has been slower.

The group's steel division had a weak first quarter result. Its Norwegian plant, Christiania Spigerverk, "earned a small profit, despite squeezed prices at the beginning of the year", but its UK mini-steel facility, Manchester Steel, had a small deficit, mainly reflecting high scrap prices in the UK and uneven production results.

Agreement in principle has been reached with Sumitomo, of Japan, about the latter's purchase of a stake in Icelandic Alloys, which Elkem owns jointly with the Icelandic Government. Sumitomo is taking a third of Elkem's 45 per cent stake in the plant, and will buy 20,000 tonnes of its 50,000 tonnes per year ferro silicon output. Elkem will retain responsibility for marketing the remaining output.

Eastman Kodak joins computer research group

By Louise Kehoe in San Francisco

EASTMAN KODAK, the world's largest photographic products company, has become the 18th U.S. company to join the microelectronics and computer technology co-operative research venture (MCC), the focus for U.S. efforts to respond to the Japanese fifth generation computer project.

Kodak's decision was announced just two days after the House of Representatives voted unanimously to pass a Bill loosening anti-trust restrictions on research and development joint ventures.

MCC was formed two years ago at the suggestion of Control Data, the U.S. computer company. It aims to allow U.S. high technology companies to pool resources and share the results of expensive research.

Motobecane successor to be 40% foreign owned

BY DAVID HOUSEGO IN PARIS

MBK INDUSTRIES, formed to take over the assets of the bankrupt French moped manufacturer Motobecane, is to be 40 per cent owned by foreign interests.

Under a share restructuring announced at the weekend, Yamaha of Japan, Fichtel and Sichs of West Germany, and d'Ieteren of Belgium, the sole distributors for Motobecane in Belgium, will each hold 10 per cent of MBK's FFr 50m ($6m) capital. A further 10 per cent will be held by Sonauto, the distributors in France of Porsche and Seat cars and Yamaha motorbikes.

The aim of the broadly based shareholding is to consolidate MBK's position in the European market while opening the possibility of a wide range of manufacturing joint ventures. MBK has already contracted to import 2,500 Yamaha scooters as a first step in developing new models with the Japanese company.

The Brazilian cycle company, Caloi Monarch, which had been reported as taking an equity participation in the reconstituted French moped producer, is no longer to do so.

Most of the French stake in the new group is to come from French insurance companies and regional institutions in Picardie in north-east France.

Motobecane filed for bankruptcy in February 1983 and has been kept alive since then through support from its bankers. The new company hopes to break even this year after shedding 440 of its 2,500 workforce.

Record bond issue by Ericsson

By David Brown in Stockholm

ERICSSON, the Swedish telecommunications and information systems group, has announced an SKr 500m ($62.7m) domestic bond issue in Stockholm which is understood to be the largest industrial bond ever floated in Sweden.

The issue will meet "a substantial growth in the working capital requirements" rather than specific investment needs, said Mr Fritz Staffas, Ericsson's finance director. The timing is dictated by the general "high liquidity and low interest rates" on the Swedish market, he said. The issue, which matures in the year 2004, pays 11.55 per cent.

Pre-tax profits and sales at Ericsson both rose 30 per cent to SKr 1.76bn and SKr 25.2bn, respectively in 1983. Research and development costs are running at 8 per cent of invoicing *particularly in the fields of* distributive data processing and office automation.

First-quarter advance for ESAB

By Our Stockholm Correspondent

ESAB, the Swedish welding equipment group, raised its pre-tax profit in the first quarter of 1984 by 24 per cent from SKr 25m to SKr 31m ($3.9m).

Sales advanced 30 per cent to SKr 746m over the previous period, due mainly to improvements in the welding automation and welding machinery groups.

The company will be able to compensate for the decline caused by a Brazilian devaluation by improvements in other business areas this year, Mr Bengt Eskilson, the managing director, told the annual meeting.

ESAB has been buying market shares through an aggressive acquisitions policy to position itself for a market upturn.

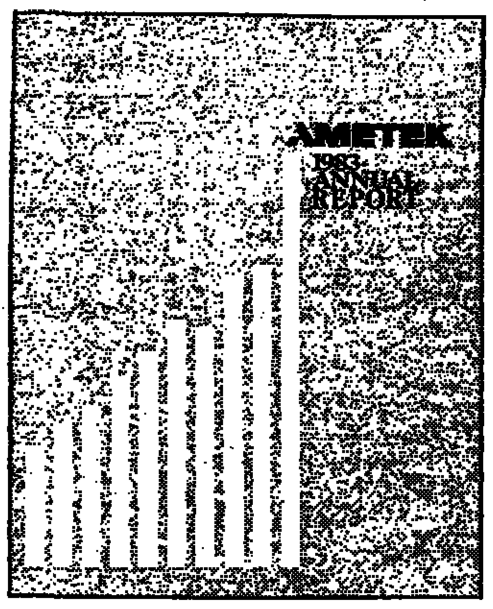
The company's Brazilian subsidiary, recently acquired a local division of Armco the U.S. steelmaker. The division produces electrodes, welding fluxes and wire.

The group's UK subsidiary, Murex Welding Products, has also reached agreement to buy Irish Industrial Gases, from BOC, the British industrial gases company, for an unspecified sum.

These 12 Annual Reports are designed to keep you informed on Major North American Companies.

North American Companies Investors Update 1

Part 2 will be featured on May 9th.

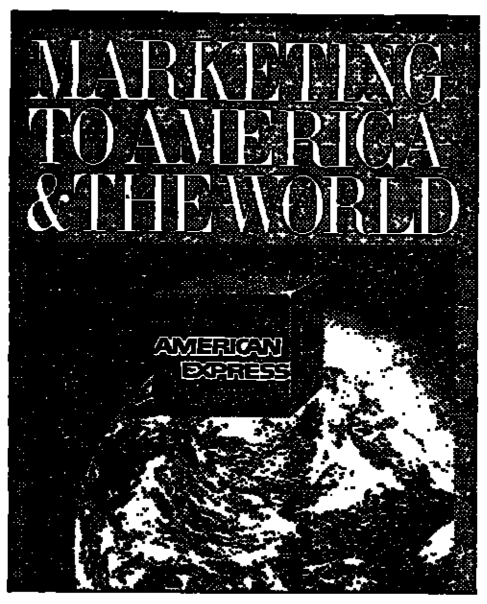


Ametek (NYSE-PSE) AME

Record 1983 sales pushed Ametek's net income up 38 per cent, highest in the company's history – but don't mistake this as a comparison to a poor performance in 1982. Ametek's profits were a record in '82 too.
In fact, the company's earnings have increased in 49 of the past 52 consecutive quarters, for a decade of steady growth uninterrupted by recessions. Management focuses on cash flow and return on investment, and stockholders' equity has trippled in that period as Ametek added $150 million in new plants and equipment for fast-growing instruments, electric DC motors, speciality plastics and undersea robotic work submarines.

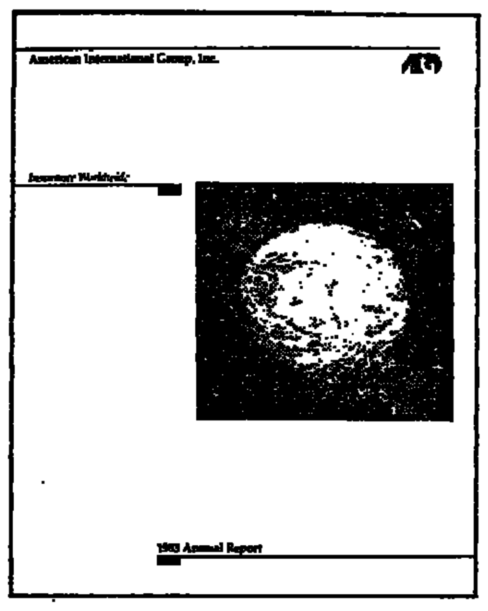
AMCA International

AMCA International is engaged worldwide in designing, engineering, manufacturing, marketing, installing and financing a broad range of industrial products, machine tools, construction equipment, engineering and construction services. AMCA's common stock began trading on the New York Stock Exchange December 6, 1983. The 102-year-old company's target for 1990: sales exceeding $5 billion, net operating income of at least $270 million, despite effects of world recession in 1983.



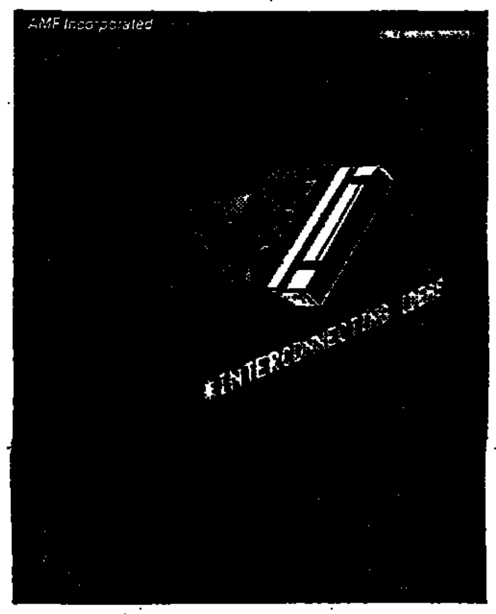
American Express

American Express Company is a leader in providing financial and travel-related products to select market segments in more than 130 countries. Its primary lines of business are travel-related services, investment and financial planning, international banking, insurance and communications. Net income in 1983 was $515 million. Total owned assets stand at $44 billion and assets managed and/or administered are approximately $60 billion.



American International Group, Inc

AIG, one of the world's leading insurance organisations, has a larger overseas network than any other U.S.-based insurer. In 1983 assets topped $10 billion, and gross premiums for general insurance approached the $5 billion mark. For the first time the rapidly growing life insurance division wrote more than $1 billion in premiums.



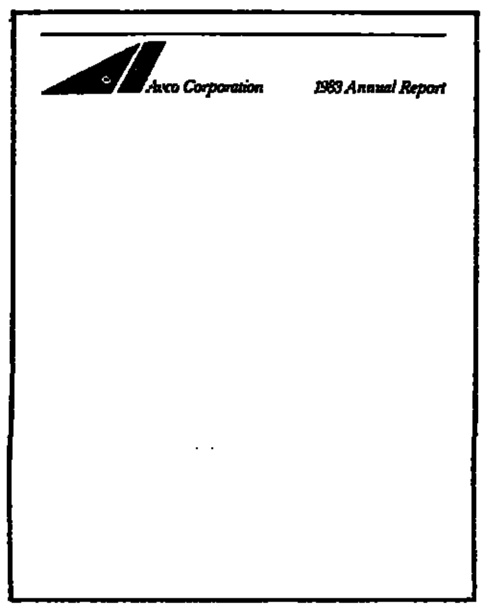
AMP Incorporated

Over 15% comp. annual growth rate in sales, earnings and dividends for over 30 years. 20-25% Return on S/H Equity. Good growth expected in 1984.

	Sales (Mil.)	EPS	Div.*
1983	$1,515	$4.55	$1.60
1982	1,243	3.31	1.40
1977	633	2.06	.48c
1972	302	.92c	.22c
1967	146	.38c	.12c

*Increased 20% to annual rate of $1.92 Jan. 1984.

Steady Growth – through new products. Sales up all but 3 of 42 years. 3/4 of sales electronic-oriented. **Broad Diversification** – leading producer of electrical/electronic connection and switching devices. 80,000 types/sizes, 85,000 customers (mfgrs., distributors, retailers, utilities, transportation, etc). Subsidiaries in 24 countries. (AMP-N.Y.S.E.)



AVCO Corporation (NYSE:AV)

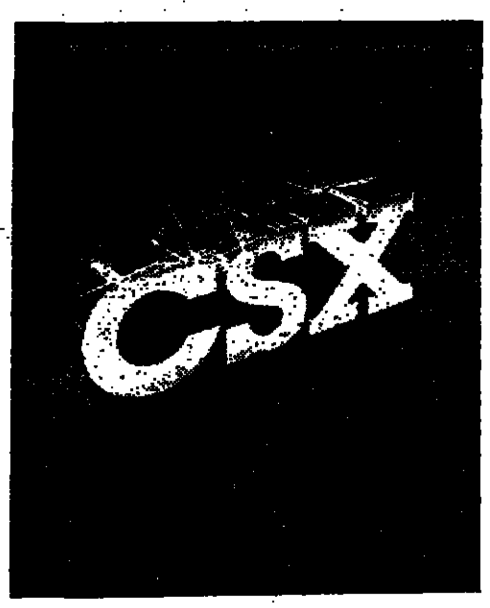
AVCO Corporation (NYSE:AV) is an operating company diversified to provide balance in four selected businesses – financial services, propulsion systems, aerospace technology and management services. In 1983, AVCO's revenues grew 14% to $2.8 billion, while net earnings rose 42% to $103 million. AVCO's financial service business and its involvement in the M1 main battle tank, Peacekeeper missile, C-5 military transports and B-1B long range combat aircraft programs are expected to provide opportunities for significant growth.

City Investing Company

City Investing achieved record results in 1983. The company's operations are industry leaders in central heating and air conditioning, water heating, business forms, magazine printing, homebuilding and community development, food services, budget motels and property/casualty insurance.

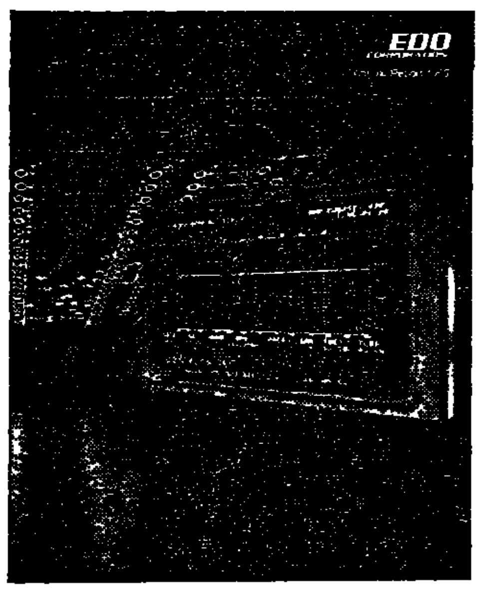
Chesebrough-Pond's Inc.

Chesebrough Pond's achieved its 28th consecutive year of increased earnings and sales in 1983 and took steps to position itself for higher growth levels in the future. Leading brand names for this diversified worldwide marketer of consumer products for the family (1983 sales: $1.69 billion) include: Ragu, Health-tex, Prince, Bass, Weejuns, Pond's, Adolph's, Vaseline, Cutex, Intensive Care, Cachet, Wind Song, Aviance, Chimere, Prince Matchabelli, Q-tips, Aziza and Rave.



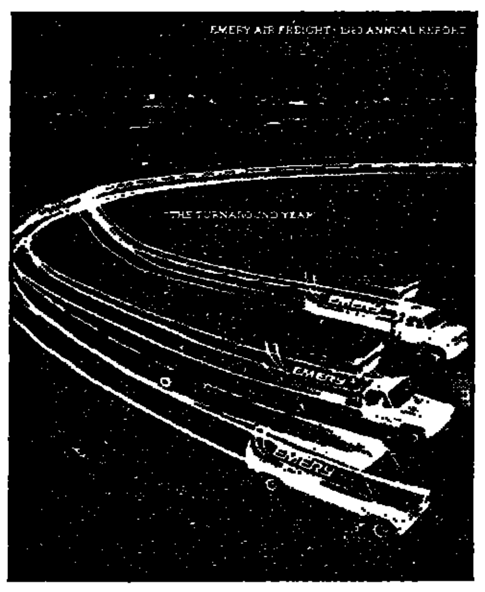
CSX Corporation BF

CSX Corporation, the nation's leading transportation and natural resources company, completed 1983 with revenues of $5.8 billion and assets of $10.8 billion. The economic recovery began favourably impacting rail traffic in last year's fourth quarter, providing a healthy momentum for 1984, and deregulation, marketing initiatives and increased productivity are keeping the momentum going in 1984.



EDO Corporation

Produces electronic and specialised equipment for military, marine, aeronautical and industrial markets. Principal products; sonar equipment; mine countermeasure systems; aircraft stores ejection mechanisms; piesoceramic components; acoustic and video scanning systems; fibre-reinforced composite components for air and rail transportation. Markets are world-wide. 1983 sales: $110,550,000. Net earnings: $10,067,000; per share $1.22. Cash dividend: $.19; stock dividend 50%. Listed on New York Stock Exchange



Emery Airfreight

Emery Airfreight, marketing its services under the name of Emery Worldwide, operates the oldest and largest overnight air cargo transportation network in the United States. It maintains 165 offices in 27 countries. Emery provides overnight door-to-door delivery of any size, any weight shipments to 56,000 North American communities. The Company also provides 24-72 hour door-to-door service to cities around the world.

First Interstate Bancorp

The 7th largest U.S. banking company with assets of $44.4 billion, First Interstate Bancorp achieved record earnings in 1983. Net income was up 11.8% to $247.4 million. At $2.215 a common share, dividends were up 4.7%, the 5th increase in 5 years, during which time the dividend rate has grown 77.7%. Including banks licensed to use its name, technology and products, the First Interstate system operates 1,000 offices in 13 states and covers half of the total land area of the entire United States.

Part of a 2½ page series appearing on May 8th, and May 9th.

Please send me the following Annual Reports:

- ☐ 1 Ametek
- ☐ 2 AMCA International
- ☐ 3 American Express
- ☐ 4 American International Group, Inc
- ☐ 5 First Interstate Bancorp
- ☐ 6 City Investing Company
- ☐ 7 AVCO Corporation (NYSE:AV)
- ☐ 8 AMP Incorporated
- ☐ 9 Emery Airfreight
- ☐ 10 Chesebrough-Pond's Inc.
- ☐ 11 CSX Corporation BF
- ☐ 12 EDO Corporation

I also want these Annual Reports featured May 9th.

- ☐ 13 NOVA
- ☐ 14 Omark Industries
- ☐ 15 Pay Less Drug Stores Northwest, Inc.
- ☐ 16 Teleflex
- ☐ 17 Sears, Roebuck and Co.
- ☐ 18 United Energy Resources, Inc.
- ☐ 19 Nabisco Brands, Inc.
- ☐ 20 Mohasco Annual Report
- ☐ 21 Masco Corporation
- ☐ 22 Loral Corporation
- ☐ 23 Lowe's Companies
- ☐ 24 Iomega Corporation
- ☐ 25 InterNorth, Inc.
- ☐ 26 Holiday Inns, Inc. (HIA)
- ☐ 27 Frank B Hall & Co. Inc.
- ☐ 28 Gulfstream Land & Development Corp.
- ☐ 29 Grace
- ☐ 30 Georgia-Pacific Corporation

Name
Position
Company
Address

Please return coupon by July 16th, 1984.

To: David Reed, Financial Times, Bracken House, Cannon Street, London EC4P 4BY

Or: Clyde Walton, Financial Times, 14, East 60th Street, New York, NY 10022

UK COMPANY NEWS

Comcap selling 33% of equity by offer at 120p per share

BY ALISON HOGAN

Wardley London is offering for sale at 120p per share, 5.5m shares in Comcap, a company which sells and leases new and second user IBM equipment in the UK and Europe.

The company, with a market value of £20.1m, is selling 32.8 per cent of its equity, of which a little over half is new shares. The £2.94m it raises will be used to help expand its existing business, the range of services it provides and to broaden its base geographically.

Jim Rumbellow, joint managing director, was one of the founders of the business in 1978, when the chairman Ernst Schneider provided financial backing. Nicholas Kennedy Scott, joint managing director with responsibility for finance, joined Comcap in 1980 when the company began to seriously expand into Europe.

The company decided early to establish a European network to benefit from currency fluctuations, market shortages and volume purchase agreements. It chose local people to run the subsidiaries in each country and gave them a substantial minority stake as an incentive to develop the profitability

Comcap has always adopted a very conservative accounting policy ensuring that the majority of its transactions are profitable without taking into account future residual values. It has also preferred to deal with larger, creditworthy customers, so that its funding of lease transactions can be arranged on a non-recourse basis.

Pre-tax profits have increased from £19,000 in 1980 to £1.21m in 1983. Turnover in the same period rose from £7.26m to £31.96m. At the sale price of 120p the shares sell on an actual tax PE of 16.6 times.

Applications for shares open on Friday, May 11. Dealings are expected to commence on May 18. Brokers to the issue are W. Greenwell.

● comment

COMCAP is not the first supplier and leaser of IBM equipment to come to the market—and possibly not the last, but with the market dominance of IBM in western Europe there appears to be more than enough custom to go round. Comcap sees scope for considerable expansion of its marketing network. It has concentrated on IBM's medium range equipment to date but might well use some of the process of the share sale to finance a move into the IBM personal computer market, as it becomes more established. By not recognising any residual value of leased equipment until it is actually realised at the end of the primary lease term (average length four years), Comcap has kept back an element of profit normally included by leasing companies. It might have boosted 1983 profits of £1.21m to over £2m. It is just reaching the stage in its operation when such business will begin to revert to the company, which in addition to the new business Comcap hopes to attract points to a considerable boost to income. That makes the 120p per share offer price giving a P/E of 16.6 seem good value.

Lyle to concentrate on shipping business

By Alexander Nicoll

Lyle Shipping, a loss-making shipping group based in Glasgow, has announced a management reshuffle which reflects a decision to scrap a *diversification policy* and concentrate on its traditional shipping business.

Mr Timothy Noble, 40, will resign as managing director, but *will remain as a non-executive* director. He will be replaced on May 31 by Mr John Maclean, 40, now managing director of the shipping subsidiary, Lyle Motorship, *and until recently a director* of Hogarth Shipping.

At the same time, four non-executive directors of the parent company will give up their directorships, though staying as executive directors of Lyle Motorship. Mr Calum MacLeod remains the group's chairman.

Lyle, hit by low freight rates for bulk carriers, reported a pre-tax loss of £5.05m for 1983 after a loss of £4.79m in the previous year. Shipping losses rose to £8.23m from £3.9m.

Mr David Clark, the company's finance director, *said Lyle now* planned to focus on stabilising its shipping activities and saw no resources available for further diversification.

Apart from its bulk cargo shipping business, the Lyle group is involved in offshore services through the Lyle Offshore Group. It also has insurance broking and leasing subsidiaries, and had made investments in the electronics and computer service industry.

A union to restore the balance between the UK and N. America

BY OUR CITY STAFF

IF Hanson Trust succeeds in taking over the manufacturing group, U.S. Industries, it will restore the balance between its UK and North American interests and embrace a company which fits its existing activities like a glove.

The British industrial group was close to victory in its hectic five-week battle for control of USI at the end of last week following the decision of the Connecticut-based company's management to support Hanson's $23 a share offer.

Hanson's bid, which values USI at $531m (£380m) has been accepted by shareholders accounting for 40 per cent of the equity, and will be its largest ever takeover.

Hanson had hardly dusted itself down from a lengthy £274m campaign to win London Brick before it embarked on its latest bid battle. USI swam into its sights at the end of February when the company's directors and a consortium of investors proposed a leveraged buy-out at $20 a share. That deal, worth about $407m, was arranged by Kelso and Co, a New York investment bank.

The UK group's $22 a share ranging shot in early April, was promptly rejected and Kelso replied with a $24 a share bid. *Hanso lifted its offer to $23 a* share the following day. But USI and Kelso held out, with repeated rebuffals, until it became clear that the complex *financing involved in their deal* would take too long to beat Hanson's slightly lower cash offer.

Lord Hanson, group chairman, says the acquisition will be funded either through U.S. bank borrowings or internally. The group has gross cash resources of around *£400m*.

Until recently, Hanson had kept its U.S. and UK operations roughly in balance—a policy colourfully illustrated by the group's symbol of a Union Flag and a Stars and Stripes knotted

Hanson Trust's £380m bid for U.S. Industries

together. In the year to last September, the UK turned in profits of £48.6m, while the U.S. activities produced £54.6m.

That equilibrium was plainly upset with the acquisition of London Brick, which *is forecast* to add £36m to UK profits in the current year. USI earned $33.7m from its continuing operations last year; enough to go some way towards restoring Hanson's transatlantic symmetry and nearly double its U.S. sales to well over $2.3bn.

That is not to say, however, that Hanson wants to maintain a balance between the UK and U.S. just for the sake of it. Only a week ago, it sold its U.S. fishing interests for a total of £21m.

Sir Gordon White, chairman of Hanson Industries—the group's U.S. arm—said the disposals would allow Hanson "to concentrate on new opportunities in less cyclical industries."

More importantly, USI's areas of operation fit in neatly with *Hanson's own. USI has approximately* 30 subsidiaries, whose activities include industrial products manufacture, industrial equipment for the motor industry, *building materials,* lighting fixtures, furniture and furnishings and clothing.

Like Hanson, USI is involved in low-technology industries in mature *markets dealing* with basic needs, where it needs to rely heavily on management skills to gain a competitive edge.

Hanson Industries' management *will find that most of* USI's activities either overlap or are closely related to their own spheres of responsibility in textiles, footwear and hand tools—although Hanson Industries' meat processing and food vending interests are less easy to fit into the USI marriage.

Earnings peaked at $52.1m five years ago, and USI swung from an attributable loss of $62.8m to a profit of $31.7m between 1981 and 1982, following up that improvement with a 6.3 per cent in earnings last year.

In one respect, however, the USI acquisition differs from the Hanson pattern. Usually, Hanson likes to pick up companies at a discount to assets, but its $23 a *share offer is well over USI's net* asset value of just under $19½ a share.

To compensate for that, Hanson is picking up a company which *is not heavily borrowed and* which stands on the point of an even more promising earnings recovery.

Swindon Private Hospital to start trading in June

The Swindon Private Hospital, the first company to be brought to the USM under the Business Start-up Scheme, is to start trading next month, slightly ahead of schedule.

In his statement with the interim results for the six months to January 31, 1984, Mr Joel Joffe, the chairman of SPH, reports that the company's hospital, known as Ridgeway Hospital, should admit its first patients *before the end of June*. Construction and equipping of the hospital has proceeded according to the timetable and budget as set out in the prospectus issued *in 1982*.

The £1.35m SPH flotation was sponsored by Mathercourt Securities licensed dealer in securities, and stockbrokers, Stock Beech and Co. It is anticipated that qualifying investors will be able to make *claims later this year* for tax-relief under the Business Start-up Scheme.

The construction of the Hospital has been project-managed by The London Private Health Group, with building and design work carried out by Lesser Design and Build.

The company's interim figures show an operating loss of £19,000 (£21,000 for year to July 31, 1983) being administrative expenses. Other interest receivable, however, added £22,000 (£77,000) *Tax took £1,000 (£27,000)* leaving a profit for the period of £2,000 (£29,000). Earnings per share came out at 0.14p

Jenks & Cattell's first quarter 'according to plan'

ACTIVITY LEVELS in the first quarter at Jenks & Cattell, the Midlands-based system buildings and pressed components group, have proceeded more or less according to plan and all three divisions are trading profitably, Mr R. W. Aitken, the chairman, says in his annual statement.

Since the year-end, the group has acquired a 14.8 per cent stake in Mandarin Resources Corporation, a quoted company which is incorporated in Hong Kong. The consideration was £730,000. The group intends to embark on further expansion.

The directors believe it is inappropriate for the holding company to continue to bear a name closely associated with the activities of one only of its subsidiaries. As a result, the name of the holding company is to be changed to Falcon Industries.

It is expected that the adoption of the new name will be effective from July 2.

Jenks & Cattell states that the acquisition from Taymar of its decorators and DIY hand tools business by Burgon & Ball, has been completed.

Burgon & Ball will be continuing the business at Sheffield, and maintaining all existing product lines and customer connections, and integrating the product range into its existing ranges of contractors and garden tools through both its own and Taymar's outlets.

Demand picks up at Boddingtons

Although trading was dull during the first three months of the current year at Boddingtons' Breweries, the good weather in recent weeks had resulted in an encouraging increase in demand for its beers, especially during the Easter holiday, Mr Ewart Boddington, the chairman, told the annual meeting.

As already known, a pre-tax *profits of this Manchester-based* company rose from £8.61m to a record £9.1m for the year to December 31, 1983, on turnover of £47.7m, against £44.47m.

Mr Boddington told members that the company's growth record for the past 10 years had been "outstanding." During that period, gross profits had risen by 607 per cent, earnings per share by 938 per cent and dividends by 508 per cent, against an RPI of 310 per cent. During this time, the share price—allowing for adjustments—had risen from 14p to 91p, an increase of 550 per cent.

The chairman said the board was actively addressing itself to the future of Boddingtons to enable the company to take full advantage of opportunities as they occur. In his statement, Mr Boddington referred to retailing and catering which were being developed.

In addition, the board was considering such items as the company's dependence on beer and the extent of its trading area.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering *dividends. Official indications are not* available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims: Akroyd and Smithers, Arenson, Frederick Cooper, Five Oaks Investments, Richards.

Finals: Ambrose Investment Trust, Barr and Wallace Arnold Trust, British Home Stores, Commercial Bank of the Near East, Costain, John Crowther, Gamar Booth, Gieves, London United Investments, M.T.D. (Mangulu), More O'Ferrall, Simon Engineering, Smith and Nephew, Walpac.

FUTURE DATES

Interims—

G.R. (Holdings)	May 10
Guinness Peat	May 17
Herman Smith	May 11
Lloyd and Scottish	May 10
MEPC	May 30

Finals—

Allied-Lyons	May 29
Barr and Wallace Arnold Trust	May 8
Buckley's Brewery	May 23
Cakebread Robey	May 21
Gates (Frank G.)	May 18
London and Northern	May 23
Oceana Development Inv. Tst.	May 9
Parkland Textile	May 22
Whitbread	May 22

† Amended.

SHARE STAKES

Hartons Group—By virtue of a purchase of 20,000 ordinary shares, Macanie Investment has taken its interest to 250,000 ordinary (0.93 per cent). Max Maimann his family and associates have become interested in 17,040,852 ordinary (63.6 per cent).

McLeod Russel — Glencona Properties has sold its holding of 9,000 ordinary. D. J. Kirkham, trustee of J. M. and Mrs E. Guthries' 1979 (grandchildren's) settlement, on behalf of the trust, has purchased 9,000 ordinary from Glencona Properties.

Wire and Plastic—Prudential Corporation has disposed of 65,000 ordinary (1.78 per cent) and now hold 190,000 ordinary (5.21 per cent).

Metal Closures Group—K. H. Fischer, a director, has increased his holding from 1m shares to 1.059m, slightly in excess of 5 per cent of the company's issued ordinary shares.

Textured Jersey — H. E. Knobil, a director, has disposed of 30,000 ordinary reducing holding to 526,021 (13.73 per cent). Kleinwort, Benson, Lonsdale J. A. Caldecott, IMLF, Forde and D. L. M. Robertson, directors, have sold 5,625 ordinary, 2,000 ordinary and 40,000 ordinary respectively.

Burgess Products (Holdings) —Arthur Leonard Robert Morton, a director, has acquired 10,000 ordinary increasing holding to 181,325 (8.43 per cent).

AGB Research—G. B. Andley, a *director, has reduced his* non-beneficial interests by 10,000 ordinary.

Yeoman Invest Trust—Company has repaid its £200,000 5 *per cent stock* 1978-84.

Sedgwick Group—John Niven Duncan, a director, has exercised an option over 42,500 ordinary and disposed of 35,000 of them, *reducing hsi holding to 10,000* shares. Carel Maurits Mosselmans, a director, has exercised an option over 40,000 ordinary and disposed of 37,500 of them reducing his holding to 32,500 shares. Anthony Victor Alexander, a director, has exercised an option over 40,000 ordinary and disposed of 30,000, reducing his holding to 60,000 shares.

F.T. Share Information

The following securities have been *added to the FT Share* Information Service: Nationwide Bldg Soc 9⅞ per cent 25/3/85 (section: Loans), Fermdesign (paper, printing), IOM Enterprises (hotels and caterers), Platon Intnl (industrials), Powerline Intnl (electricals).

FINANCIAL TIMES STOCK INDICES

	May 4	May 3	May 2	May 1	Apr. 30	Apr. 27	1984 High	1984 Low	Since Compilation High	Since Compilation Low
Government Secs	81.02	81.40	81.53	81.66	81.60	81.96	83.77	81.02	127.4	49.18
Fixed Interest	85.86	85.69	85.96	86.03	86.90	86.24	87.48	85.69	150.4	50.53
Industrial Ord	918.4	922.8	919.4	915.8	910.1	906.0	922.9	770.3	922.8	49.4
Gold Mines	665.1	671.4	668.0	672.8	676.6	684.4	711.7	520.2	734.7	43.5
FT-Act. All-Share	534.18	536.71	536.12	534.74	534.84	534.85	536.71	470.02	536.71	61.92
FT-SE 100	1134.0	1141.6	1140.1	1136.8	1136.3	1138.2	1141.6	997.5	1141.6	997.5

RECENT ISSUES

EQUITIES

Issue price p	Amount paid up	Latest Renunc. date	1984 High	1984 Low	Stock	Closing price p	+ or −	Net Div.	Times Covered	Gross Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renunc. date	1984 High	1984 Low	Stock	Closing price £	+ or −
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

"RIGHTS" OFFERS

Issue price p	Amount paid up	Latest Renunc. date	1984 High	1984 Low	Stock	Closing price p	+ or −
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Renunciation date usually last day for dealing free of stamp duty. [illegible]

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

Date	Announcement last year	Date	Announcement last year
[illegible]	[illegible]	[illegible]	[illegible]

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

COMPANY NEWS IN BRIEF

Ransomes Sims

The accounts of Ransomes Sims & Jefferies, machinery manufacturer, confirmed the statement by Mr H. A. Whittall, the chairman, which accompanied the accounts that there would be a further useful improvement in the level of profits in 1984, he told the annual meeting.

Mr J. S. Kerridge and Mr C. P. Booth will join the board on June 1.

J. W. Cameron

Sharply higher full year taxable profits of £3.72m, against £424,000, were achieved in 1983 by J. W. Cameron & Co., which is destined to become part of Scottish & Newcastle Breweries.

Cameron, a brewer, wine and spirit merchant currently controlled by Ellerman Lines, pushed up turnover by £3.22m to £59.68m and profits before property sales by over 20 times to £2.52m. Profits from the sales amounted to £341,000 (£297,000).

Tax took £128,000 (credit £33,000), leaving net profits at £3.59m (£487,000) equal to [illegible] per share of [illegible]. The final dividend is [illegible].

Albert Fisher

Shareholders in Albert Fisher have approved the ordinary resolution to increase the authorised share cap and to enable the directors to allot shares to be issued pursuant to the rights issue. The directors will proceed to raise approximately £2.38m (after expenses) by way of a rights issue at 68p per share as previously proposed.

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Telephone, computer access, data retrieval and telex in a single terminal.

TODAY: MASTERING CHANGE

The communications revolution is happening - *now!* The profitability and progress of your business already depends increasingly on effective reaction to a wide range of pressures.

As time goes on, the pressures will inevitably increase and reaction times shorten.

To meet these demands efficiently, the press-button convenience and advanced facilities of a modern telephone system may well suffice. But your need could be for a network that integrates voice, data, text and perhaps vision too.

Or more probably, something in between. But this is certain: whoever you call on for advice and help, will have to offer...

Total capability in communications - Now!

The right package in the right place

Rapidly widening choice in hardware, software, systems, services, and schemes for finance, maintenance and support produces a vast array of options and permutations.

Out of them all has to come a practical communications package for your business. One that delivers a balanced combination of speed, accuracy, convenience, sophistication – and flexibility.

For fast as *your* business is changing, communications technology is almost certainly changing still faster. An efficient system must be adaptable to tomorrow's technology as well as tomorrow's business needs. National Networks knows very well what works today, and what's likely to come on stream three, five and ten years from now.

Because National Networks is already operating country-wide an efficient, successful, highly-advanced communications system. And has behind it all the vast resources, skills and know-how of British Telecom – one of the "big four" in world communications.

For example: we already operate more than 10,000km. of high-capacity digital trunk routes; and, exclusive to us are sophisticated "gateways" that enable terminals differing widely in function and speed of operation to make use of common cables and switches.

You can rely on National Networks to deliver to you the right package, in the right place, at the right time and the right price.

Unified Network control

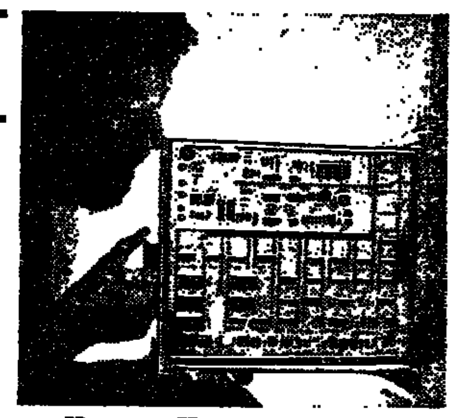
When you work with National Networks there is no conflict of routes, systems, standards – or responsibilities. From origination to delivery we can handle all your traffic all the way. We can do more!

If your system is a large one, it won't be news to you that running it is a 24 hours a day job.

National Networks can take the burden off your shoulders through network control centres dedicated to supporting the operational requirements of large users.

They are manned day and night and the degree of control they exercise on your behalf is up to you. From simply being available at the end of a telephone, to co-ordinating your entire network.

The back up you need



All the skills we have gained in planning Britain's biggest communications networks are at your service.

We will design and specify a system that matches your present needs and budget, but is capable of adapting smoothly to the future.

We will buy and supply the right equipment. We will install, commission, service and maintain it. We will make sure you get a complete package – including financial support. And we will do everything in a friendly, helpful, *human* way.

If you have identified a communications problem – or even suspect one may exist – get in touch with National Networks. *Total capability in communications – Now!*

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FT2

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DEFENCE RESEARCH CENTRE LOOKS FOR CIVILIAN PROJECTS

Military satellites seek wider use

BY PETER MARSH

ENGINEERS at Britain's leading military centre for satellite communications are beginning a quiet experiment in opening up the base to civilian projects.

The centre, set in the lush Worcestershire countryside, is the Defford outstation of the Ministry of Defence's Royal Signals and Radar Establishment. The latter is based a few kilometres away at Malvern.

The Defford base features a total of six permanent "dish" aerials, some of them shielded by plastic radomes, whose main business is to send signals to military satellites owned either by the U.S., Britain or Nato.

Over the next few years, the *balance of the work at Defford* will tilt toward civilian studies as the Department of Trade and Industry builds up at the station a small group of satellite specialists.

The move will compensate for the absence in the UK of a research centre for non-military communications satellites. For this work, Britain has to call on the research bases in Holland and West Germany of the European Space Agency—of which this country is one of 11 members.

The DTI will spend £1m at Defford over the next year, partly to equip the base to communicate with civilian satellites. The cash will also fund research studies in space communications that could benefit British industry.

The funding should continue at around this level for several years. By 1987, the team of two people that the DTI employs at Defford should have grown to a small cadre of five civil servants and engineers whose main job will be to liase with industry.

The most pressing priority will be to build new antennas that can handle the frequencies used by civilian communications vehicles. Defford's existing aerials mainly receive and transmit in the 7-8 GHz band, which by international convention is reserved for the military.

Engineers are already at work converting one of the aerials to handle signals in the 4-6 GHz band used by civilian satellites. Workers simply have *to replace the aerial's dish with* a somewhat larger component, made by Precision Metal of Stratford, leaving unchanged the bulk of the electronics that processes the signals.

In a bigger project, the DTI plans to spend more than £1m, probably over two or three years, on two new aerials and supporting electronic systems. This hardware will receive and transmit in two other bands—11-14 GHz and 20-30 GHz.

With this equipment, the Defford base will act as a site for experiments involving non-military communications satellites in which Britain has a stake. Craft of this kind will include the series of five ECS *vehicles which* British Aerospace is building on behalf of West European telecommunications organisations; the L-Sat experimental craft that the European Space Agency plans to launch in 1986; and the direct-broadcasting TV satellite that the UK may put into orbit later in the 1980s.

Industry may be particularly interested in studies at 20-30 GHz. Virtually none of today's communications vehicles use this frequency. To construct and operate circuits that handle *signals at this frequency* can be a problem. Further, electromagnetic radiation of this kind can be severely weakened when sent through the atmosphere.

But in the 1990s, communications companies may wish to *operate satellites on these frequencies* on the grounds that the more accessible bands in the microwave spectrum are full with other communications traffic.

The DTI's workers at Defford plan to offer a range of *scientific services to support* industry. For instance, they could test small antennas for use with direct-broadcast satellites.

The Government's engineers may also liaise with industry on projects such as digital processing for satellites and the design of modems to be used in satellite ground equipment.

Other areas on which the DTI's staff could work include research *into* civilian applications of satellite hardware that the RSRE developed. For example, engineers could investigate commercial uses of the small dishes, less than a metre in diameter, which soldiers carry around in backpacks for communication with satellites.

As a result of an agreement with the RSRE, Ferranti has further developed the equipment and sold backpack systems to the Ministry of Defence. Commercial applications are likely to be limited by the high cost of the satellite "manpacks"—each unit costs tens of thousands of pounds.

Defford's military engineers have taken miniaturisation a stage further with a satellite *terminal that fits into a brief*case—just the job for people who want to communicate with satellites yet wish to remain unobtrusive.

In other work at Defford, engineers have developed a tiny transponder for satellite com*munications that fits on top of* a Land Rover. The device, just a few centimetres in diameter, bounces signals off the vehicle's roof and from there to the satellite.

The bandwidth of the link is not high enough to permit the transmission of voice messages—the system can send and receive only written instructions. Nonetheless, the device could be useful in any future civilian *networks which send messages* to vehicles via satellites.

Despite the new interest in commercial applications, Defford's total staff of some 80 people are unlikely to move completely away from military systems. In particular, the base will experience intense activity toward the end of next year when the first of Britain's two new military satellites, Skynet 4A and 4B are launched.

Defford will act as the main base for testing the satellite before it enters full operation. *Routine transmissions to and* from the vehicle will be handled by another Ministry of Defence station at Oakhanger, Hampshire.

The new satellites — the second is due to be launched in early 1986 — will replace *Britain's sole remaining mili*tary satellite, Skynet 2B, which entered space in the mid 1970s above the Indian Ocean. The vehicle's orbit is erratic and nowadays the satellite drifts into view of the UK only every few years for periods up to 12 *months.*

This suitcase-sized satellite terminal may soon count among the possessions of the best-equipped spies. "Suitsat" was produced at a military research establishment in Defford,

Packaged software marks future growth

BATTLE LINES for the "new generation" microcomputer software wars of the late 1980s are being drawn and even seasoned market analysts seem shaken by their own predictions of market sizes and growth rates.

The U.S. market consultancy Creative Strategies International (CSI)* reckons that by 1988 the retail value of just one type of this new software, "new operating environments," will be $4bn, compared with only $50m in 1983.

Unit sales for new operating environments, it suggests, will grow from 37,000 units in 1983 to almost 19m units in 1988, an average annual growth rate of 253 per cent.

"These are huge numbers, CSI notes in awed fashion. CSI's predictions are, however, in line with many industry estimates.

Last year, Ms Jacqueline Morbey of TA Associates, a U.S. venture capital organisation which has made a speciality of investing in software companies suggested that the business microcomputer software market—including both "new generation" software and traditional business applications—would be worth $6.7bn in 1988.

In Europe, the Economist Intelligence Unit says in a new report** that the market for packaged microcomputer software was £127m in 1983, a growth of 170 per cent over 1982.

By 1988, the report contends, sales of this software in the UK alone will reach over £400m.

All of which backs up Ms Morby's contention that the microcomputer market will continue to offer investors returns unprecedented in investment history.

The "engine" driving this growth is the growing demand among business microcomputer users for new generation or "integrated" software.

The most obvious example is Lotus Development Corporation's best selling package 1-2-3. Traditionally, applications programs, the programs that actually carry out a task for the user like running his *payroll* or organising *his* accounts have been supplied as separate units.

To change from one activity to another involved changing units—physically replacing one program disc with another and running the new program. It *was tedious and inefficient.*

Then towards the end of 1982, Visicorp showed its new generation software "Visi On" which made it possible to divide a computer screen into a number of "windows" each running a separate application program.

This was the first of the new generation operating environments where much improved methods of switching between separate application programs were tied in to the operating system of the computer itself.

The controversial Apple "Lisa" with similar screen handling techniques was launched within weeks—but at a price of $10,000, far too high for it to sell well.

Then Lotus launched 1-2-3, a program which combined spreadsheet, graphics and data management facilities. CSI notes: "Lotus modestly called it the most important thing in the industry since Visicalc and then went into the market to prove it."

"We estimate that Lotus laid out approximately $3m in advertising and promotion expenditure during the first half of 1983 . . . According to its own stock prospectus, Lotus earned more than $0.5m on about $13m revenue in the first six months of 1983, delivering an estimated 60,000 1-2-3 packages to buyers."

Lotus' success gives some idea of the demand for this new kind of computer software. Integrated computer software, according to CSI, can be divided into two broad types—packages which run on existing operating systems such as 1-2-3 or MicroPro's Star line (WordStar, CalcStar) and operating environments where elements of both applications software and systems software are combined—Apple's Lisa or Macintosh, the Grid Compass or Epson QX-10 for example.

CSI defends its forecasts of market values through to 1988 on the grounds that new generation or integrated software will become entirely standard by that time: "Almost every microcomputer system will be able to address several hundred thousand characters of random-access memory and *almost all will be able to move* back and forth from one application to another."

"Even inexpensive home systems will incorporate many of these same features at a fraction of the 1983 price of innovative systems such as the Apple Lisa or the IBM PC-XT with Visi-On."

The burden of the CSI report is that new operating environments of the kind exemplified by Visicorp's Visi On, Microsoft's "Windows" or Digital Research's Concurrent CD/M are likely to take precedence in the future over purely integrated software of the 1-2-3 variety.

As Howard *Kornstein, Digital's* research director for Europe puts it: "What the industry is trying to come up with is the closest metaphor to the way people work with pencil, and paper."

"The essential problem which *has to be solved is that as* people work, they are being constantly interrupted — the computer has to be able to cope with multi-tasking."

The trend in software, CSI says, is towards larger and more powerful applications packages supported by more advanced operating systems.

Integrated *packages* of applications specifically orientated towards various end-user groups — vertical application packages — will become common. Networks and database managers will become very important.

Pointing out that the software market cannot be tapped by traditional means, CSI urges software companies to develop sophisticated marketing approaches and channels of *distribution.*

"The leading software companies in 1983 all made deals involving large amounts of venture capital." To succeed in the new generation software market, companies will have to use their capital wisely, create strong marketing capabilities, offer quality, easy-to-use software, employ successful distribution channels (cable TV and electronic publishing for example) and maintain a good customer support system.

* *Integrated Software,* Creative Strategies International, USA: (408) 249 7550; UK: (01) 741 4767.

** The Markets for Microcomputers Software in Europe, EIU Informatics U.S.: (212) 541 5730; UK: (01) 493 6711.

ALAN CANE

Professional Personal Computing

Telecoms

B.T. banks on voice storage

BRITISH TELECOM has launched an automatic computerised message service which will compete with telephone answering machines. The new service—called Voicebank—can also be linked to BT's radiopagers to tell someone that there is a message waiting on the service.

A Voicebank customer is given a dedicated telephone number where messages may be left in an electronic "mail box." The messages are recorded electronically—rather than on a tape. The owner of a Voicebank box can play back the messages by dialling the number and using a special keypad held against the mouthpiece of the telephone. The keypad can be used to repeat or delete messages or change the answering message itself.

The service originates from the U.S. and is based on computer equipment and software developed by BBL of Atlanta, Georgia, and sold in the UK by CIL. The messages are stored on eight Winchester disc drives which can store a total 40 hours of messages, enough for 5,000 customers.

The service, available only in London initially, will cost £10 to join and £35 a quarter. The special keypad is an additional £45. It means in the first year Voicebank will cost £195, which is more than the price of an automatic answering machine with remote control.

BT says the advantage of Voicebank is that it is easier to use and less likely to go wrong than an answering machine and it also can be connected to the radiopaging service. The disadvantage is that it is not connected to someone's main number, is expensive and can only accept seven messages of 25 seconds.

JASON CRISP

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INDEBTEDNESS

At the close of business on 13 April 1984 the companies now comprising the Group had outstanding secured bank loans of £509,000, unsecured loans of £726,000 and hire purchase commitments of £14,000. Save as aforesaid and apart from intra-Group liabilities, at that date none of the companies now comprising the Group had any loan capital (including term loans) outstanding or created but unissued, or any outstanding mortgages, charges or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments, or guarantees or other material contingent liabilities. For the purpose of this paragraph amounts in currencies other than sterling have been translated into sterling at the rates of exchange prevailing on 13 April 1984.

DIRECTORS AND ADVISERS

Directors
Ernst Schneider (*Swiss*) (Chairman)
Nicholas Charles Kennedy Scott (Joint Managing Director)
James William Rumbellow (Joint Managing Director)
Michael Russell Dudley
Helmut Hermann Gottinger (*Austrian*)
Malcolm McEachern Mitchell-Thomson, Baron Selsdon
all of 26 Chilworth Street, London W2 6DT

Secretary and Registered Office
Richard Edgar Lansdowne, BSc, FCA
26 Chilworth Street, London W2 6DT

Issuing House
Wardley London Limited
Wardley House, 7 Devonshire Square, London EC2M 4HN

Stockbrokers
W. Greenwell & Co.
Bow Bells House, Bread Street, London EC4M 9EL and The Stock Exchange

Auditors and Reporting Accountants
Thomson McLintock & Co, *Chartered Accountants*,
70 Finsbury Pavement, London EC2A 1SX

Solicitors to the Offer
Norton, Rose, Botterell & Roche
Kempson House, Camomile Street, London EC3A 7AN

Solicitors to the Company
Gersbon Young Finer & Green
79 New Cavendish Street, London W1M 8JJ

Principal Bankers
Midland Bank plc
Winchester House, 96 Old Broad Street, London EC2N 1BA

Receiving Bankers
Midland Bank plc
Stock Exchange Services Department,
Mariner House, Pepys Street, London EC3N 4DA

Registrars and Transfer Office
Close Registrars Limited
Arthur House, 803 High Road, Leyton, London E10 7AA

KEY INFORMATION

The following information should be read in conjunction with the full text of this Offer for Sale from which it is derived.

Business

Comcap's main business is the supply and financing of new and second user IBM computer equipment. Comcap offers IBM users a complete service designed to maximise the effectiveness of their investment in computer systems in both hardware and financial terms.

Through its network of European offices and well established trading links, Comcap operates in most of the principal IBM markets in Europe. Over 65 per cent of turnover was derived from outside the UK in respect of the year ended 31 December 1983.

Trading Record

Year end 31 December	Turnover £'000	Profit/(loss) before taxation £'000	Profit/(loss) after taxation and minority interests £'000
1979	1,512	(5)	(7)
1980	7,256	63	19
1981	8,761	51	10
1982	14,823	625	392
1983	31,959	1,548	1,211

The above information has been extracted from the Accountants' Report and reflects the current Group structure. No future income has been recognised in relation to the potential value arising from equipment after expiry of primary lease terms, except for the treatment of Operating leases as explained under **Residual interests** below.

Offer for Sale statistics

Offer for Sale price	120p
Market capitalisation at the Offer for Sale price	£20.1 million
Shares in issue following the Offer for Sale	16,772,300
Earnings per share	
—after actual tax charge	7.2p
—after notional 50 per cent tax charge	4.4p
Price/earnings ratio	
—after actual tax charge	16.6 times
—after notional 50 per cent tax charge	27.3 times
Indicated net dividend per share	1.5p
Indicated gross dividend yield	1.79 per cent
Indicated dividend cover	4.8 times

These statistics have been calculated on the bases set out under **Earnings per Share and Dividends** below.

HISTORY

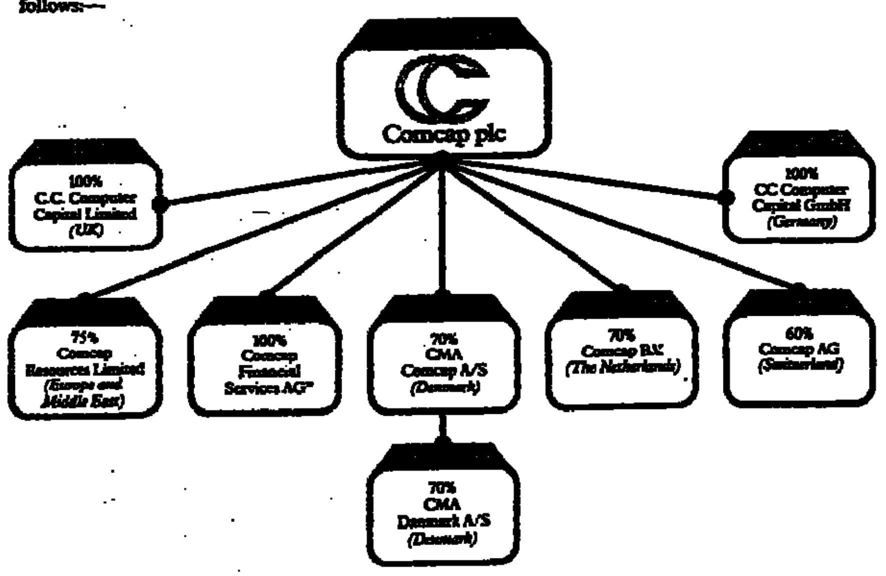
Comcap was established in 1978 by James Rumbellow and William Beckwith, with the financial backing of Ernst Schneider, to provide specialised leasing and brokerage services to users of IBM computer equipment in Europe. They were joined later in 1978 by Michael Dudley, who became responsible for Comcap's UK operations.

From its initial UK base, Comcap rapidly developed strong trading links in Germany and Scandinavia. In 1980 the present senior management team was completed when Nicholas Kennedy Scott joined the Group with responsibility for finance and Helmut Gottinger became managing director of the German subsidiary. In 1981 Ernst Schneider became Chairman and controlling shareholder and Mr. Beckwith ceased his association with the Group.

In 1983 the Group acquired a controlling interest in CMA Comcap A/S, a computer leasing company operating in Denmark. In addition, Comcap also has a close trading relationship with CMA Comcap AB, an independent Swedish company, which is not part of the Group and which operates throughout Scandinavia with the exception of Denmark.

The Group's European network was further extended during 1983 by the establishment of operations in Switzerland and The Netherlands. Also in that year the Group increased its investment and took a controlling interest in Comcap Resources Limited, which specialises in the recruitment of computer staff.

The Company was incorporated in England in November 1983 and is the holding company for all the companies which now comprise the Group. The Group structure reflects the management philosophy of granting minority shareholdings to the managing directors of operating subsidiaries in the early stages of each subsidiary's development. The Group's principal subsidiaries and their areas of operation are as follows:—



*This company trades in markets where the Group has no direct operating subsidiary.

BUSINESS

Comcap's main activity is the supply and financing of IBM computer equipment. The Group offers users of IBM systems a complete service designed to meet their particular requirements, thereby enabling them to maximise the effectiveness of their investment in computer systems both in hardware and financial terms. Comcap has operating subsidiaries or trading links in most of the principal IBM markets in Europe and is therefore well placed to supply both new and second user equipment to its customers.

Comcap offers various forms of lease finance designed to take advantage of fiscal and other factors relevant to the customer. Lease finance can be arranged at the time of acquisition of the equipment from IBM and also for those users who wish to refinance computer equipment covered by an existing IBM rental contract. Comcap can purchase new equipment from IBM in any country where the Group maintains order options. This gives the Group flexibility to take advantage of currency fluctuations and volume purchase agreements, the benefits of which can be passed on to the customer.

The Group also trades in and arranges lease finance for second user IBM equipment, in which there is a major worldwide market. This substantial market exists because the performance of properly maintained second user equipment is similar to that of new equipment of the same type. Second user equipment will therefore generally retain a value representing a significant proportion of its original cost until it is rendered technologically obsolete by new IBM products. Moreover, market shortages can occur which result in second user prices approaching or even exceeding the current list price for a new unit. The Group, with its network of offices and trading links in Europe, can often assist customers wishing to obtain new equipment to exchange or remarket their existing equipment.

The rapid growth of the computer industry has led to a shortage of qualified computer staff. Computer personnel trained in the UK are highly regarded for their skills. Comcap, through its subsidiary Comcap Resources Limited, acts as a recruitment agency to provide specialist staff to computer users in Europe and the Middle East.

The European market and IBM

IBM dominates the general purpose computer market in Western Europe. This dominance has encouraged the growth of companies which support the market for IBM equipment.

IBM generally offers standard maintenance contracts to all users of new or second user IBM equipment whether that equipment is supplied by IBM or through a third party. This has resulted in the well established second user market for IBM equipment which now exists in Europe. Such equipment can, during its lifecycle, be moved a number of times to different users in different countries and will *continue to enjoy standard IBM maintenance in each new location where IBM has the appropriate* maintenance facilities.

Comcap could be affected by changes in IBM's marketing policy or by a loss by IBM of a significant part of its market share. However, there is no sign either of such changes in IBM's marketing policy or that IBM's dominance in the market for computer equipment in Europe is diminishing. Throughout Comcap's area of operations it has a good working relationship with IBM.

Comcap principally deals in those IBM products the movement of which is not subject to US governmental consent. Comcap has been granted appropriate licences from the relevant governmental authorities, subject to annual renewal, to transfer computer equipment between most European countries where Comcap has an operating subsidiary or trading links.

Customers

During its six years of operation the Group has established a substantial customer base in Europe. These customers are from government, industry, finance and commerce, and use a wide range of IBM computer systems. This range can be classified by type of central processing unit into three market sectors:—

—Small (IBM Systems 36 and 38)
—Medium (IBM 4300 series)
—Large (IBM 308X series)

Equipment on lease from Comcap ranges from a single item of peripheral equipment such as a disk drive costing approximately £15,000 to an IBM 3084 processor complex which costs in excess of £3 million. The majority of Comcap's customers are users of the medium range IBM 4341 system, which with its associated peripheral equipment has an average cost in excess of £400,000. As at 31 December 1983 there were 429 current leases written by Comcap on equipment with an aggregate original cost of over £33 million, of which the largest customer accounted for some 16 per cent spread over 7 leases.

Comcap's customers include a number of multinational companies such as Esso, Ford, Sony, SKF, British Petroleum and Storno (a subsidiary of General Electric of America), who lease equipment from Comcap in more than one country.

No one customer accounted for more than 7 per cent of Comcap's turnover in the year ended 31 December 1983.

Some Comcap customers

American Express International, Aramco, Avon Cosmetics, Avon Overseas, BBC Brown Boveri, BP Olie-Kompagniet, BRD Hartmann, British Caledonian Airways, Brunata Waermemesser, Buderus, Canon, Cherryana Data, Chivas Brothers, Cuprinol, L. Daehnfeldt, Dagbladet Politiken, Dansk Esso, Dansk Ost, Karl Danzer, Data-Bank, Data Rex, Dataprint, Datema, Den Faelles Oliedistribution, Det Berlingske Officin, Det Danske Staalvalsevaerk, Deutsche Solvay Werke, Devon County Council, Duckhams Oil, Dunlop, Duracell, Dynamit Nobel, ECI, Eaton, Edelstahlwerke Buderus, Esso, Flaekt, Ford, General Accident, Geodata, Victor Greulich, Grundig, Hoegaard og Schultz, Hochtief, Holdermann, IVG, Inco Europe, Irma, Junghans Wollversand, Klett Verlag, Kloeckner-Humboldt-Deutz, Koninklijke Maatschappij 'De Schelde', Kraft Foods, Ku Data, Kuwait Petroleum, Leisure Circle, Leyland Vehicles, R A Lister, Lucas, Ludvigsen og Hermann, Makro, Management Share, Mann Egerton, Martinswerk, L. Messel, Medicinsk Data, Milchversorgung, Mobil, Moebel Franz, NEI Nuclear Systems, Nabisco, National Employers Mutual, Nekton, Nestlé, A C Nielsen, Nordiske Kabel- og Traadfabriker, Northern Star Insurance, Occidental, Otis Elevator, Oxy Systems, PBC og Multidata, Palapharm, Provinzial Versicherung, William Prym Werke, Ranks Hovis McDougall, Rastal, Reifenhaeuser, Rheinische Olefin Werke, Ringkoebing Amtskommune, Ross Foods, SKF Kugellager Industrie, Schwarzkopf, Seagrams, G. D. Searle, Shell, Ernst Siegling, Skandinavisk Benckiser, Skaneks, Soeren AAS, Sony, E R Squibb, Stadt Esslingen, Standard Electric, Stoof, Storno, Swiss Bank Corporation, TNTN-IPEC, Texaco, Thomson Travel, Trafalgar House, Tryg, Tuev-Rheinland, Universitaet zu Koeln, Viborg amts Sygehusvaesen, Waldrick Siegen, Jean Walterscheid, Ward and Goldstone, Werner und Pfleiderer, Wiggin Alloys, Worcester Controls.

Revenue

Comcap's revenue is generated principally through the leasing and direct selling of computer equipment.

The breakdown of the Group's turnover by activity in the year to 31 December 1983 was as follows:—

	£'000	%
Leases—Arranged	10,079	31.5
—Finance	9,191	28.8
—Operating	1,157	3.6
Outright sales including sales of future rights	11,259	35.2
Recruitment	273	0.9
	31,959	100.0

The breakdown of the Group's profit before taxation by activity in the year to 31 December 1983 was as follows:—

	£'000	%
Leases	794	51.3
Outright sales including sales of future rights	747	48.2
Recruitment	7	0.5
	1,548	100.0

Leasing

Leasing is a widely used means of financing the acquisition of computer equipment when the user does not wish to make an outright purchase. Users will often require equipment for a period shorter than its normal working life and leasing can provide the flexibility to achieve this result. In addition, for items with a high unit cost, such as computer equipment, the cash flow advantages of leasing can be particularly attractive to the lessee compared with the alternative of outright purchase. The desirability of leasing may be further enhanced by fiscal advantages but leasing has also proved an effective method of financing in countries where no such advantages are available.

Comcap writes three types of lease: Arranged leases, Finance leases and Operating leases. Under all leases the lessee undertakes at its expense to keep the equipment comprehensively insured and covered by an IBM maintenance contract.

Arranged leases

Under an Arranged lease, Comcap negotiates the lease with its customer and arranges for a financing institution to acquire title to the equipment and to become the lessor. At the same time Comcap enters into an option agreement with the financing institution to repurchase the equipment at the end of the primary term for a nominal amount.

Finance and Operating leases differ from Arranged leases in that Comcap retains title to the equipment.

Finance leases

The Finance lease is a lease with a term exceeding two years and typically four to six years, under which the rental stream payable by the customer covers Comcap's costs, principally being the purchase price of the equipment and the related finance costs.

Operating leases

Operating leases are those leases under which Comcap does not fully recover its costs during the primary lease period, or leases which have a term of two years or less. In general, Comcap aims to write leases during the early stages of the product cycle. As a result, in the case of an Operating lease, Comcap's investment in the equipment should be profitably recovered by remarketing or re-leasing at the end of the primary term.

Lease funding

In respect of the majority of Comcap's leases a financing institution funds the equipment cost by paying to Comcap the discounted value of the rental stream arising from the lease. This is paid at the commencement of the lease and represents the total rental income due, discounted at a commercial rate of interest to reflect such early payment. Such payments are made to Comcap without recourse owing to the credit standing of the lessee. In respect of all other leases or where the discounted value of the rental stream does not cover Comcap's costs, Comcap funds the whole or part of the equipment cost from its own resources; at present approximately 10 per cent of the original cost of the equipment in Comcap's lease portfolio is funded in this way.

In respect of all types of lease Comcap retains its relationship with the customer by providing a continuing lease management service throughout the lease term.

Profit arising from leases

In the case of an Arranged lease the profit made by Comcap is recognised on the assignment of the lease to the financing institution and is the amount of the proceeds recovered from the financing institution, less the cost of the equipment and the provisions made for the repurchase option and future administrative and marketing expenses.

In the case of a Finance lease Comcap's profit is recognised in two stages. Over the period of the lease a finance profit arises from the difference between the gross rental stream and the discounted rental stream due over the period of the lease, after adjusting for financing costs which arise if the rental stream is assigned or sold to a financing institution. In addition, Comcap recognises at the commencement of a Finance lease a selling profit which represents the difference between the discounted value of the rental stream and the cost of the equipment together with provision for future administrative and marketing expenses.

Comcap plc

Under Operating leases profit is recorded over the life of the equipment and is the difference between the rental income received and the depreciation charged on a straight line basis over the primary term of the lease or over four years, whichever is the greater. Related interest costs arising from the funding of equipment under Operating leases are expensed as they arise.

Residual interests

Comcap does not recognise as income, until the equipment is remarketed or re-leased, any potential value that may arise from equipment after the expiry of the lease term of Arranged and Finance leases or, in the case of Operating leases, after the expiry of the primary lease term or four years if greater. Although it is common in the leasing industry to recognise such future value as income during the lease term, Comcap has adopted its policy because the Directors consider that it is inappropriate to attempt to quantify this value owing to the inherent uncertainty in predicting the value of computer equipment in future years.

As at 31 December 1983 Comcap had in its lease portfolio of Arranged, Finance and Operating leases computer equipment with an original cost to Comcap in excess of £33 million, spread across the IBM product range as follows:—

	£'000
IBM 4300 processing units and peripherals	9,982
IBM 308X processing units and peripherals	7,104
IBM Systems 36 and 38	1,427
Peripheral equipment	15,277
	33,790

The residual interests in 41 per cent by original cost of this equipment will revert to Comcap prior to 31 December 1986 and the remainder thereafter. As stated above the Directors believe it inappropriate to place a value on such interests in the financial statements of the Group. However, whilst the value of such residual interests cannot be predicted with certainty, the Directors estimate that an amount in the region of £2.5 million will be realised as income from the renewal of leases on such equipment or from its remarketing.

Outright sales

Comcap deals actively in the purchase, sale and remarketing of computer equipment in all countries where it has an operating subsidiary. This brokerage activity is supported by trading links in most other markets where IBM equipment with European specifications can be bought or sold.

As a result of current tax legislation in the USA additional income is derived from the sale of future rights in computer equipment. Income is generally received from such sales within a three year period following the sale but delivery of equipment under these sales is normally scheduled to take place towards the end of the product life of the equipment, typically between five and eight years after the equipment has first been acquired by Comcap. Although this source of income could diminish or cease should there be any relevant changes in this legislation, existing sale contracts will ensure a flow of income during the two financial years ending 31 December 1985.

Recruitment

Comcap generates income in its capacity as a recruitment agency specialising in computer personnel. This income is received either as a fee payable at the beginning of a placement or, in the case of contract work, as the difference between the monthly payment received from the employer and that paid to the contracted employee.

Business in Europe

The following is a summary of the turnover and profit before taxation for the year ended 31 December 1983 contributed by the subsidiaries in the main areas in which Comcap has a presence:—

	Turnover		Profit before taxation	
	£'000	%	£'000	%
Operating companies				
UK	10,310	32	497	32
West Germany	15,755	49	876	57
Denmark, Switzerland, The Netherlands	7,801	24	190	12
Inter-company sales and holding company overheads	(1,907)	(5)	(15)	(1)
	31,959	100	1,548	100

United Kingdom

Comcap operates in the UK through C.C. Computer Capital Limited, which trades in computer equipment, and Comcap Resources Limited, which acts as a recruitment agency.

Whilst broking remains a profitable source of business for C.C. Computer Capital Limited, it is the leasing activity (for both new and existing customers) which currently shows the greatest potential for development. This subsidiary has approximately 100 customers, of whom nearly half lease central processing units, primarily the IBM 4341, and almost all customers have peripheral equipment on lease. UK customers include Ford Motor Company, Shell UK, Trafalgar House and General Accident.

In the March 1984 Budget it was announced that 100 per cent capital allowances would be reduced to 25 per cent over a three year period. The Directors do not anticipate that this will adversely affect the potential for developing its business because the demand for leasing of computer equipment is expected to continue to grow, given its flexibility as a means of finance and its benefits to cash-flow. The Directors anticipate that tax shelter leases will now become less important and that a more stable market will evolve in which specialist computer leasing companies should be able to increase their market share.

Comcap Resources Limited has supplied over 100 computer staff (mainly systems analysts, programmers and operations staff) to users in the Middle East, in particular to Aramco which in 1983 accounted for approximately 72 per cent of Comcap Resources Limited's turnover. However, in recent months additional sales staff have been appointed to improve coverage of the European markets and it is anticipated that this company will benefit increasingly from the Group's existing customer base.

West Germany

Comcap operates in West Germany through CC Computer Capital GmbH whose offices are located near Frankfurt.

This company has built up a base of some 50 customers, amongst which are some users of very large systems. Consequently the lease portfolio in Germany includes a high proportion of peripheral equipment. The market for IBM equipment in Germany is one of the largest in Europe and the Directors believe that there is scope for substantial further growth.

Customers include Kloeckner-Humboldt-Deutz, Esso, Mobil Oil, Sony and SKF.

Denmark

Comcap has three operating companies in Denmark. CMA Comcap A/S operates in Copenhagen and the surrounding district and specialises principally in the medium and large IBM systems. CMA Danmark A/S operates in the Jutland area and specialises in the smaller IBM systems. A third subsidiary has recently been established to specialise in the larger IBM systems.

The Danish companies have a base of over 30 customers, most of who lease both processing units and peripheral equipment. Customers of these companies include BP Olie-Kompagniet, Storno, Tryg, Standard Electric Kirk and Dansk Ost Produktion.

The Netherlands and Switzerland

During 1983 Comcap established operating subsidiaries in The Netherlands and Switzerland, Comcap B.V. and Comcap AG respectively.

As is characteristic of Comcap's new operations, brokerage is the most important part of the business of both of these companies. Under normal market conditions, the Directors expect that this pattern will continue for the first eighteen months of operation. Thereafter it is anticipated that increasing customer acceptance will lead to the development of an equipment lease base, as has been the case for Comcap's other operating subsidiaries.

Comcap Financial Services AG, based in Switzerland, trades in rights in computer equipment referred to under Outright sales above.

Competitors

Comcap's major competitors are local brokers dealing in computer equipment, the leasing subsidiaries of banks and the specialist computer leasing companies. Whilst an increasing number of Comcap's competitors are now establishing a European presence, Comcap believes its European network is both better established and further developed than most of its competitors.

MANAGEMENT PHILOSOPHY

A major factor contributing to Comcap's growth has been the experience and ability of its senior executives. Comcap has always placed great emphasis on recruiting for its operating subsidiaries local managing directors who are experienced in the systems and engineering of computer equipment as well as in selling and the arrangement of finance. Consequently, customers can look to Comcap to advise on all aspects of the implementation of computer systems.

In order to secure local management of the appropriate calibre and to provide them with the necessary motivation to succeed in a highly competitive environment, Comcap's policy is that each managing director should acquire a substantial minority shareholding in his own company and be allowed a high degree of autonomy in its day to day operation.

The managing directors of the main operating companies in the UK and Germany, which are currently the principal contributors to Comcap's profitability, have recently exchanged their minority shareholdings for shares of the Company. The managing directors of the other operating subsidiaries, other than of the newly established Danish subsidiary, have been granted options whereby each managing director can sell his minority shareholding to the Company at a value based on a multiple of the audited profits before taxation of the relevant subsidiary. The Company also has the option to purchase each of the minority shareholdings in 1990. The consideration for the acquisition of these shareholdings can be satisfied by the Company in cash or by the issue of new shares but the total number of shares issued to meet the requirements of all these options will not exceed 15 per cent of the issued share capital of the Company after the Offer for Sale, subject to adjustment for reorganisations of capital. Details of the options are set out in paragraph 4 of Appendix II. These arrangements will provide those managing directors with a continuing incentive to develop the profitability of their companies.

In addition to their minority shareholding interests and options, under the terms of their existing service contracts managing directors are paid annual bonuses based on the net operating profits before taxation of their respective subsidiaries. These bonuses do not exceed 20 per cent and, upon exercise of the options, the relevant managing director will be required to enter into a new two year service contract under which his bonus will be limited to not more than 5 per cent.

The Directors intend to continue to apply this management philosophy in the future development of the Group.

DIRECTORS, MANAGEMENT AND STAFF

Directors

Ernst Schneider, aged 59, is non-executive chairman. He is a Swiss national with extensive worldwide business interests primarily in seafood, wood and speciality fibres. During his business career he has spent nineteen years in the UK. He has been associated with Comcap since its inception and, although his appointment is non-executive, he has devoted considerable time to the development of the Group since he became the majority shareholder in 1981.

Nicholas Kennedy Scott, aged 39, is joint managing director with responsibility for finance and administration. He is a Chartered Accountant and has been working in the computer leasing industry since 1970 when he joined Leasco. In 1976 he moved to Computer Investors Group Inc., a computer leasing company, and later became its European finance director. In July 1980 he joined Comcap.

James Rumbellow, aged 39, is joint managing director with responsibility for marketing and development strategy. He has a degree in engineering from the University of Cambridge and has been employed in the computer industry, primarily specialising in computer leasing, since 1966, with Honeywell, Itel and Standard Chartered Leasing. He has been with Comcap since its inception in 1978.

Michael Dudley, aged 44, has direct responsibility for the UK subsidiary, C.C. Computer Capital Limited, and is its managing director. He has a science degree from the University of London. From 1965 he worked with Honeywell leaving in 1972 to move into the computer leasing business, first with Leasco and subsequently with Itel. He joined Comcap in 1978.

Helmut Gottinger, aged 39, has direct responsibility for the West German subsidiary, CC Computer Capital GmbH, and is its managing director. He obtained a degree in engineering from the University of Vienna before joining IBM in Denmark in 1965 as a systems engineer. In 1970 he left IBM and joined Memorex in Denmark, subsequently becoming country manager. In 1977 he moved to Germany with Memorex where he was appointed regional managing director for Germany, Switzerland and Austria. In 1980 he joined Comcap.

Malcolm Selsdon, aged 46, is a non-executive director. Lord Selsdon is a banker with a commercial background in international trade and industry. He is chairman of the Committee for Middle East Trade and a member of the British Overseas Trade Board. He became a Director of the Company in May 1984.

Management

Benny Pedersen (*Danish*), aged 37, is the managing director of the Danish subsidiary, CMA Comcap A/S, and has overall responsibility for the Group's operations in Denmark. He joined IBM as an engineer in 1968 before joining Memorex in 1973 as a systems engineer and subsequently became a sales executive. In 1977, when Mr. Gottinger left Denmark to look after the German operations of Memorex, he was succeeded by Mr. Pedersen as country manager of Memorex in Denmark. He joined CMA Comcap A/S in May 1982 and owns 30 per cent of that company's equity.

Richard Lansdowne, aged 35, has recently been appointed both secretary to the Company and Group financial controller. He has a mathematics degree from the University of Bristol and is a Chartered Accountant. In 1975 he joined Thomson McLintock & Co and was a manager with them for five years before joining Comcap in January 1984.

Harry Lorentsen (*Danish*), aged 46, is the managing director of the Danish subsidiary, CMA Danmark A/S. He trained as an electrical engineer and in 1960 joined Power Samas in Sweden, now part of ICL. In 1967 he moved back to Denmark and started the technical section of Mohawk Data A/S where he stayed until 1974 when he became a salesman with Memorex, joining Mr. Pedersen and Mr. Gottinger. He joined CMA Danmark A/S in May 1983 and owns 30 per cent of that company's equity.

Peter Madams, aged 36, is the managing director of Comcap Resources Limited. In 1972 he joined Pitney Bowes becoming a sales executive. In 1978 he joined VLI Group becoming a manager of a subsidiary specialising in the recruitment of computer personnel for the USA and the Middle East. He joined Comcap Resources Limited in September 1981 and owns 25 per cent of that company's equity.

Beatrix Spaeti (*Swiss*), aged 35, is the managing director of Comcap AG, the Swiss operating subsidiary. She joined IBM in Switzerland in 1968 as a systems engineer gaining experience on both large and medium sized computer systems. In 1978 she became a sales executive with IBM, before joining Memorex in Switzerland in a similar capacity. She joined Comcap AG in May 1983 and owns 40 per cent of that company's equity.

Dankert Vogelaar (*Dutch*), aged 37, is the managing director of Comcap B.V., the Netherlands subsidiary. In 1975 he joined Computer Hardware Corporation to market IBM equipment in The Netherlands, Germany and the Middle East. He joined Comcap B.V. in July 1983 and owns 30 per cent of that company's equity.

Staff

Apart from the Directors and management listed above, the Group employs a further 21 people, of whom 10 are employed in the UK. The Group enjoys excellent staff relations and, as described in paragraph 8 of Appendix II, has established the Comcap Share Option Scheme 1984 for the benefit of its management and staff. Up to 500,000 Ordinary shares of the Company are available for issue under the Scheme representing 2.98 per cent of the issued share capital of the Company following the Offer for Sale.

It is also intended, subject to shareholders' approval, that the Group should introduce within the next twelve months a profit sharing scheme to provide a continuing incentive to employees to become shareholders in the Company.

TRADING RECORD

The following summary of the consolidated results of Comcap, which has been extracted from the Accountants' Report, is presented on the basis that the present Group structure existed throughout the five years ended 31 December 1983.

	Year ended 31 December				
	1979	1980	1981	1982	1983
	£'000	£'000	£'000	£'000	£'000
Turnover	1,512	7,256	8,761	14,823	31,959
Operating profit/(loss)	(5)	50	39	637	1,817
Net interest receivable/(payable)	—	13	12	(12)	(269)
Profit/(loss) before taxation	(5)	63	51	625	1,548
Taxation	(2)	(44)	(41)	(237)	(290)
Minority interests	—	—	—	4	(47)
Profit/(loss) after taxation and minority interests	(7)	19	10	392	1,211
Extraordinary items	—	—	—	—	148
Profit/(loss) attributable to shareholders	(7)	19	10	392	1,359
Earnings/(loss) per share	(0.04p)	0.11p	0.06p	2.34p	7.22p

During the period to 31 December 1981 Comcap's profitability was affected by the start-up costs of its operating subsidiaries in the UK and West Germany. The improving results for the two years to 31 December 1983 reflect Comcap's success in building up a customer base and in optimising profitability through the opportunities arising from its European network. However, progress in the UK in the year to 31 December 1983 was affected by lower profits from Comcap Resources Limited as a result of the imposition of the requirement for local agency representation in Saudi Arabia. Also in that year, the results in Germany showed exceptional progress. This was partially due to the Group being able to take advantage of particularly favourable market conditions, in which investment grants were available to owners of computer equipment. These grants, which ceased to be available at the end of 1983, enabled the Group to enlarge significantly its portfolio of leased equipment and to expand further its range of customers.

The taxation charges shown in the above table have been adjusted where appropriate to reflect the recent changes outlined in the March 1984 Budget and have been provided on the basis of the *taxation charge which would have been made in respect of each year assuming the present proposed* legislation. The taxation charges relate principally to the UK companies and at present the Company has provided for the full potential liability for deferred taxation which may arise in the UK as the Directors believe this policy to be the most prudent until the full implications of the recent taxation changes are *known. At the end of the current year the Directors will reassess this policy in the light of any further* developments.

ASSETS

The Accountants' Report in Appendix I shows that the consolidated net assets of Comcap as at 31 December 1983 amounted to £1,734,000. After taking into account the net proceeds of the Offer for Sale receivable by the Company, estimated to amount to £2,935,000, the pro forma balance sheet of Comcap as at the same date, contained in paragraph 10 of Appendix I, shows consolidated net assets of Comcap of £4,669,000, equivalent to 27.8p per share on the basis of the 16,772,300 shares in issue following the Offer for Sale.

EARNINGS PER SHARE AND DIVIDENDS

Earnings per share

For the twelve months ended 31 December 1983 the consolidated net profit after taxation attributable to shareholders of the Company, after deduction of minority interests and before extraordinary gains, was £1,211,000. After applying a notional corporation tax charge of 50 per cent to Comcap's actual profits before taxation, the profits attributable to shareholders, after deduction of minority interests and before extraordinary gains, would have been £736,000.

On the basis of the 16,772,300 Ordinary shares which will be in issue following this Offer for Sale, earnings per share in the year ended 31 December 1983 would have been, assuming the taxation charge outlined under Trading Record, 7.2p representing a price/earnings ratio of 16.6 times at the Offer for *Sale price. If these earnings were calculated* after a notional corporation tax charge of 50 per cent the resultant earnings would be 4.4p per share representing a price/earnings ratio of 27.3 times. No adjustment has been made to show any notional benefit to the earnings of the Company from the investment of the net proceeds of the Offer for Sale.

Dividends

In the absence of unforeseen circumstances, the Directors expect to pay an interim dividend of 0.4p per share (equivalent to 0.57p gross with the related tax credit) in December 1984 and to recommend a final dividend of 0.6p per share (equivalent to 0.86p gross with the related tax credit) in or about June 1985. Such dividends take account of the fact that Comcap will have been a listed company for only part of 1984. The Directors of Comcap (other than Lord Selsdon) and their wives have undertaken to waive their entitlement to the interim and final dividends (other than to a nominal 0.01p per share per annum) payable in respect of the two years to 31 December 1985, on the 11,272,300 shares in aggregate which will be held by them immediately following the Offer for Sale.

In respect of a full year in which a level of profit similar to that for the year ended 31 December 1983 was earned, the Directors would expect to recommend dividends totalling 1.5p per share (equivalent to 2.14p gross with the related tax credit). At the Offer for Sale price of 120p this would represent a gross yield of 1.79 per cent and would be covered 4.8 times by the earnings for the year ended 31 December 1983 of £1,211,000. It is intended that in future years an interim dividend will be paid in December and a final dividend in June.

REASONS FOR THE OFFER FOR SALE

The 5,500,000 Ordinary shares offered for sale represent 32.79 per cent of the issued share capital of the Company. 2,978,280 of the shares being sold are new shares, which will raise an estimated £2,935,000 net of expenses for the Company. Comcap intends to utilise the proceeds of the Offer for *Sale to expand its existing business in its* current markets and elsewhere within Europe and to broaden the scope of its business by acquisition and the development of complementary services required by IBM users. An enlarged capital base will enable Comcap to continue to expand its business by investing in equipment in the early years of an IBM product cycle. The Directors also anticipate that a listing on The Stock Exchange will *itself assist the development of Comcap's business within Europe.*

The listing of the Company's shares will further increase the attractions offered to Comcap's management and staff by the option arrangements and share option scheme referred to above. This will provide them with a further incentive to build up the profitability of their companies and thereby increase the profitability of the Group.

Following the Offer for Sale, the shareholdings of the Directors of the Company and their families will together amount to 67.21 per cent of the issued share capital of the Company. This excludes any shares which Lord Selsdon may apply for under the terms of the Offer for Sale.

PROSPECTS

Comcap has established a European network of companies and an able management team. Within this existing framework, Comcap foresees significant scope for growth. It is anticipated that the expansion of Comcap's presence in Europe will continue with a view to extending Comcap's network of operating subsidiaries and its coverage of the market for IBM equipment. Comcap also intends to broaden the range of services it can offer the user of IBM equipment and, as a first step, has diversified into the recruitment and placement of specialist computer staff. The Directors are currently investigating the demand for additional services capable of being readily marketed to Comcap's customer base and Comcap may acquire other complementary businesses.

Although it is too early to make a profit forecast for the year to 31 December 1984, the Directors anticipate that Comcap's business will continue to develop strongly in the future and progress in the year to date is encouraging. As residual values begin to be realised from late 1984 onwards, the Directors *expect Comcap to generate additional positive cash-flow which* will be reflected in profits and will be available for reinvestment.

Appendix I

ACCOUNTANTS' REPORT

The following is the text of the report to the Directors of Comcap plc and Wardley London Limited from Thomson McLintock & Co, Chartered Accountants.

The Directors, Comcap plc
and
The Directors, Wardley London Limited — 3 May 1984

1 Introduction

1.1 We were appointed auditors of Comcap plc ("the Company") on 23 November 1983. The Company was incorporated on 3 November 1983. It established a wholly-owned sub holding company, Computer Capital International Limited, on 30 November 1983 and acquired a 75 per cent holding in Comcap Resources Limited on 22 December 1983. On 3 May 1984, the Company issued 9,480,000 shares to acquire the whole of the issued share *capital of Comcap Holding AG. The Company and its subsidiaries, after giving effect to the above, are hereafter* collectively referred to as "the Group".

1.2 We have been auditors (or joint auditors) to the principal subsidiaries of the Group for the year ended 31 December 1983 and as reporting accountants we have examined the financial statements of the Group for the five years ended 31 December 1983.

1.3 The information set out in paragraphs 2 to 10 below is based on the financial statements of the Group after making such adjustments as we consider appropriate for inclusion in our report in the Offer for Sale to be dated 4 May 1984.

1.4 On 6 October 1981 Comcap Holding AG purchased a majority holding in Commonwealth Holding B.V. which owned the subsidiaries of the Group at that time. On 5 May 1983 the Group sold its subsidiary Compex Srl for cash of Italian Lire 59 million. On 30 December 1983 the Group sold its 33.4 per cent interest in CMA Comcap AB for cash of Sw.Kr. 1.5 million and purchased a 70 per cent interest in CMA Comcap A/S also for cash of Sw.Kr. 1.5 million. The results of both CMA Comcap AB and Compex Srl have been excluded from the financial information set out in this report because of their disposal and the immateriality of their results.

1.5 On 3 May 1984, the Company issued 1,657,010 shares to acquire the 30 per cent minority interest in C.C. Computer Capital Limited and issued a further 1,657,010 shares to acquire the 25 per cent minority interest in CC Computer Capital GmbH. On 18 April 1984 the senior executive of Comcap AG acquired a 40 per cent shareholding interest in that company from Comcap Holding AG for S.Fr. 200,000 which was left outstanding as a loan. On 27 April 1984 the senior executive of Comcap B.V. acquired a 30 per cent shareholding interest in that company from Comcap Holding AG for D.Fl. 36,158 which was left outstanding as a loan. There are no other significant post balance sheet adjusting events.

1.6 The consolidated financial information has been presented as if the Group structure, as currently constituted, existed in all accounting periods. Thus the results and source and application of funds for the five year period from 1 January 1979 include those companies that are now part of the Group. On the same principle, the balance sheet as at 31 December 1983 reflects the present Group structure.

1.7 In our opinion, the information set out in paragraphs 2 to 10 below gives for the purposes of the Offer for Sale a true and fair view of the results and source and application of funds of the Group for the five years ended 31 December 1983 and of the state of affairs of the Company and the Group at 31 December 1983.

1.8 No current cost information has been incorporated in this report because any current cost adjustments would not be material.

1.9 No audited financial statements of the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 December 1983.

2 Accounting policies

2.1 Accounting convention

The financial information has been prepared under the historical cost convention.

2.2 Principles of consolidation

All intercompany balances and transactions have been eliminated on consolidation. Goodwill arising on consolidation is calculated as the excess of the purchase price over the fair value of the assets at the time of acquisition and has been eliminated against reserves.

2.3 Translation of foreign currencies

The assets and liabilities of foreign subsidiaries have been translated at exchange rates prevailing at the balance sheet date. *Profits and losses on trading transactions of foreign subsidiaries* have been translated at average rates of exchange for the accounting period. The gains on exchange arising on the translation of net assets of foreign subsidiaries have been recorded as movements in reserves.

2.4 Turnover

Turnover includes rental income from operating leases, the discounted value of the minimum lease payments receivable from finance leases, proceeds of equipment sold outright and under arranged leases, the consideration currently receivable from the sale of future rights to equipment and the fees receivable from recruitment activities. Turnover is exclusive of VAT and sales taxes.

2.5 Stock

Stock consists of computer equipment held for resale or lease and is stated at the lower of actual cost and net realisable value.

2.6 Investment in leased assets and related revenue

The Group's accounting policies for investments in leased assets and related revenue comply, where applicable, with Exposure Draft Number 29 ("Accounting for Leases and Hire Purchase Contracts") issued by the Consultative Committee of Accountancy Bodies, with the possible exception that, due to the uncertainty in determining the future value of computer equipment and for reasons of prudence, no value has been attributed to the residual interests in equipment placed on Finance or Arranged leases as defined below. Where the Exposure Draft does not specify an accounting treatment the Directors have, where applicable, based the Group's accounting policies on current authoritative pronouncements on the subject by the Financial Accounting Standards Board in the USA.

Leases are accounted for in three categories:

(a) Arranged leases

Arranged leases arise where equipment is purchased by the Group and sold to third party lessors such as banks or other financing institutions together with the benefit of a lease negotiated by the Group with its customer. The funding of these leases is without recourse to the Group and the Group has no further financial interest in such leases except that it has an option to repurchase the equipment (normally for 0.5 per cent of the original *cost) at the end of the primary lease period. The Group provides management* and marketing services during the period of the primary lease. The profit, which is recognised at the date of sale of the equipment to the third party lessor, is the sale proceeds received from the third party lessor less the cost of the equipment together with the provisions made for the repurchase option and future administrative and marketing expenses.

(b) Finance leases

Leases where the minimum lease payments receivable, discounted at a commercial interest rate, constitute more than the purchase price and for which the lease term is greater than 24 months are accounted for as finance leases.

Any excess of the minimum lease payment receivable, discounted at a commercial interest rate, over the cost of the equipment supplied by the Group is recognised as a *dealer profit at the inception of the finance lease.* Cost, for these purposes, includes a provision for future administrative and marketing expenses to be incurred in servicing the lessee over the period of the lease.

The difference between the gross minimum lease payments receivable and the discounted minimum lease payments receivable represents finance income which is recognised over the period of the lease so as to give a constant rate of return on the investment in the lease. In the profit and loss account, finance income is offset against interest payable.

The investment in finance leases is stated at the total of the minimum lease payments receivable under such leases, less finance charges to the lessee allocated to future periods and less amounts due to third party financing institutions.

(c) Operating leases

All other leases are classified as operating leases.

Equipment on operating leases is stated at cost less accumulated depreciation and less amounts due to third party financing institutions. Depreciation is provided on a straight-line basis to write off the cost of the equipment over the related lease term or 48 months, whichever is the greater. Rentals from operating leases are credited to income as they become due.

2.7 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis to write off the cost of the assets over their estimated useful lives as follows:

Motor vehicles	—	4 years
Office equipment, fixtures and fittings	—	3–12 years
Leasehold improvements	—	life of lease

2.8 Deferred taxation

Deferred taxation has been provided on all timing differences which are expected to reverse in the foreseeable *future using the relevant rates of taxation in each country. The provision in the UK reflects the recent changes outlined* in the March 1984 Budget and has been made at 35 per cent on the basis of the taxation charge which would have been made at each year end assuming the proposed changes had been then in effect.

3 Consolidated profit and loss accounts

	Notes	1979	1980	1981	1982	1983
		Year ended 31 December				
		£'000	£'000	£'000	£'000	£'000
Turnover	4.1, 4.2	1,512	7,256	8,761	14,823	31,959
Cost of sales	4.3	1,375	6,874	8,250	13,421	28,869
Gross profit		137	382	511	1,402	3,090
Administrative and other expenses	4.4	142	332	472	765	1,273
Operating profit/(loss)		(5)	50	39	637	1,817
Interest	4.5	—	13	12	(12)	(269)
Profit/(loss) on ordinary activities before taxation	4.6	(5)	63	51	625	1,548
Taxation	4.7	2	44	41	237	290
Profit/(loss) on ordinary activities after taxation		(7)	19	10	388	1,258
Minority interests		—	—	—	4	(47)
Extraordinary items	4.8	—	—	—	—	148
Net profit/(loss) attributable to shareholders		(7)	19	10	392	1,359
Earnings/(loss) per share	4.9	(0.04p)	0.11p	0.06p	2.34p	7.22p

4 Notes to the consolidated profit and loss accounts

4.1 Turnover

An analysis of turnover by activity is as follows:

	1979	1980	1981	1982	1983
	Year ended 31 December				
	£'000	£'000	£'000	£'000	£'000
Arranged lease sales	1,069	1,041	1,901	7,554	10,079
Discounted value of minimum lease payments receivable under finance leases	—	194	49	2,112	9,191
Operating lease rentals	—	57	30	174	1,157
Outright sales of equipment	443	5,910	6,687	4,178	10,793
Sales of future rights to equipment	—	—	25	263	466
Recruitment agency fees and other sundry income	—	54	69	542	273
	1,512	7,256	8,761	14,823	31,959

4.2 A geographical analysis of turnover is as follows:

	1979	1980	1981	1982	1983
	Year ended 31 December				
	£'000	£'000	£'000	£'000	£'000
UK	1,512	5,132	6,510	7,586	10,310
Germany	—	2,135	3,017	3,778	15,755
Other European countries	—	54	1,946	3,950	7,801
Inter-company sales	—	(65)	(2,712)	(491)	(1,907)
	1,512	7,256	8,761	14,823	31,959

4.3 Cost of sales

Included in cost of sales are the following items:

	1979	1980	1981	1982	1983
	Year ended 31 December				
	£'000	£'000	£'000	£'000	£'000
Provisions for repurchase options and future expenses	19	27	34	205	576
Depreciation of equipment on operating leases	—	10	22	109	622

4.4 Administrative and other expenses

Included in administrative and other expenses are the following items:

	1979	1980	1981	1982	1983
	Year ended 31 December				
	£'000	£'000	£'000	£'000	£'000
Depreciation of tangible fixed assets	7	4	7	25	36
Directors' remuneration	23	84	156	221	317
Auditors' remuneration	2	3	7	15	32

4.5 Interest

	1979	1980	1981	1982	1983
	Year ended 31 December				
	£'000	£'000	£'000	£'000	£'000
Interest receivable	—	13	29	58	98
Finance income	—	2	23	127	501
Interest payable	—	(2)	(40)	(197)	(868)
	—	13	12	(12)	(269)

4.6 A geographical analysis of profit/(loss) on ordinary activities before taxation is as follows:

	1979	1980	1981	1982	1983
	Year ended 31 December				
	£'000	£'000	£'000	£'000	£'000
UK	7	108	33	501	497
Germany	—	(17)	(68)	160	876
Other European countries	—	(21)	99	8	190
Holding company overheads and consolidation adjustments	(12)	(7)	(13)	(44)	(15)
	(5)	63	51	625	1,548

Comcap plc

4.7 Taxation

The taxation charge is based on the profit for the year and comprises:

	Year ended 31 December				
	1979	1980	1981	1982	1983
	£'000	£'000	£'000	£'000	£'000
UK corporation taxation	—	2	9	(6)	—
UK deferred taxation	2	42	22	205	201
Overseas taxation	—	—	10	18	23
Overseas deferred taxation	—	—	—	20	66
	2	44	41	237	290

The taxation charge has been reduced in respect of:	Year ended 31 December				
	1979	1980	1981	1982	1983
	£'000	£'000	£'000	£'000	£'000
Investment grants in Germany	—	—	—	82	447

4.8 Extraordinary items

Extraordinary items in 1983 comprise:

	£'000
Profit arising on disposal of Compex Srl	19
Profit arising on disposal of CMA Comcap AB	129
	148

4.9 Earnings/(loss) per share

The earnings/(loss) per share have been calculated on the basis of the profit/(loss) on ordinary activities after taxation and minority interests, divided by the 16,772,300 shares which will be in issue following the Offer for Sale.

4.10 Dividends

Apart from inter-company dividends, which have been eliminated on consolidation, no dividends have been recommended or paid in respect of any of the accounting periods covered by this report.

5 Reserves

The movements in the reserves of the Group for the five years under review are set out below:

	£'000
Deficit as at 1 January 1979	(45)
Retained profits/(loss) for the year to 31 December:	
1979	(7)
1980	19
1981	10
1982	392
1983	1,359
Consolidation goodwill arising in the five years under review and pre-acquisition profits included above	(690)
Exchange differences on translation of overseas subsidiaries	6
Reserves as at 31 December 1983, all of which are distributable	1,044

6 Consolidated statements of source and application of funds

	Year ended 31 December				
	1979	1980	1981	1982	1983
	£'000	£'000	£'000	£'000	£'000
Source of funds					
Profit/(loss) before taxation and minority interests	(5)	63	51	625	1,548
Add/(deduct) items not involving the movement of funds					
Increase in provisions for repurchase options and future expenses	20	35	22	210	448
Depreciation of fixed assets and equipment on operating leases	7	14	29	134	658
Foreign currency translation differences	2	(26)	(3)	19	4
Total funds from operations	24	86	99	988	2,658
Other sources					
Issue of shares	237	—	—	—	50
Proceeds of loan	—	—	—	—	106
Total sources of funds	261	86	99	988	2,814
Application of funds					
Movement in investments	—	(7)	194	1	(85)
Increase in fixed assets	25	13	33	83	68
Increase/(decrease) in finance leases	—	140	(12)	(76)	759
Increase in operating leases	—	35	65	1,127	2,469
Taxation paid	—	—	—	13	3
	25	181	280	1,148	3,214
Increase/(decrease) in working capital	236	(95)	(181)	(160)	(400)
Movement in working capital					
Debtors (including lease payments receivable within one year)	217	354	22	1,950	2,198
Creditors (including lease obligations payable within one year)	19	(855)	(230)	(2,117)	(2,916)
Stock	—	220	180	(199)	231
	236	(281)	(28)	(366)	(487)
Movement in net liquid funds					
Cash	4	209	(2)	423	63
Bank loans and overdrafts	(4)	(23)	(151)	(217)	24
	—	186	(153)	206	87
	236	(95)	(181)	(160)	(400)

7 Consolidated balance sheet at 31 December 1983

	Notes	£'000	£'000
Fixed assets			
Tangible fixed assets	8.1		167
Investment in operating leases	8.2		2,933
Investment in finance leases	8.3		811
Current assets			
Stocks		432	
Debtors	8.4	2,964	
Lease payments receivable within one year	8.3	1,889	
Cash		749	
		6,034	
Current liabilities			
Creditors	8.5	4,201	
Lease obligations payable within one year	8.2, 8.3	2,102	
Bank loans and overdrafts		371	
		6,674	
Net current liabilities			(640)
Loan due after one year	8.6		(106)
Provisions	8.7		(1,306)
Minority interests			(125)
			1,734
Share capital and reserves			
Called up share capital	8.8		690
Reserves (see paragraph 5)			1,044
			1,734

8 Notes to the consolidated balance sheet at 31 December 1983

8.1 Tangible fixed assets

	Cost	Aggregate depreciation	Net book value
	£'000	£'000	£'000
Leasehold improvements	73	17	56
Office equipment and motor vehicles	159	48	111
	232	65	167

8.2 Investment in operating leases

	£'000
Cost of equipment on operating leases	7,052
Aggregate depreciation	(901)
Net book value of equipment on operating leases	6,151
Lease obligations payable after one year	(3,218)
	2,933

Lease obligations payable within one year are shown under current liabilities.

8.3 Investment in finance leases

	£'000
Minimum lease payments receivable after one year	10,152
Finance charges allocated to future periods	(2,062)
Gross investment in finance leases	8,090
Lease obligations payable after one year	(7,279)
	811

Minimum lease payments receivable within one year and lease obligations payable within one year are shown under current assets and current liabilities respectively.

8.4 Debtors: Amounts falling due within one year

	£'000
Trade debtors	1,414
Prepayments and accrued income	308
Other debtors including investment grants receivable and VAT recoverable	1,242
	2,964

8.5 Creditors: Amounts falling due within one year

	£'000
Trade creditors	2,175
Other creditors including taxation and social security	1,523
Accruals	503
	4,201

8.6 Loan due after one year

This comprises a Danish Kroner loan repayable over five years with each instalment corresponding to a series of lease rental payments. The rate of interest is 5.5 per cent above the Danish Central Bank rate which is currently 8 per cent per annum. The loan is secured on contracts for leased equipment.

8.7 Provisions

	Repurchase options and future expenses	Deferred taxation	Total
	£'000	£'000	£'000
Balance at 1 January 1983	303	291	594
Movement in year	448	264	712
Balance at 31 December 1983	751	555	1,306

Deferred taxation balances at 31 December 1983 arise from:	£'000
Accelerated capital allowances	554
Other timing differences	29
Losses	(28)
	555

Full provision has been made for deferred taxation on all potential timing differences throughout the Group. The provision related principally to the UK. The policy will be reassessed at the end of 1984 when the full implications of the recent taxation changes are understood.

8.8 Share capital

	£'000
Authorised—Ordinary shares of 5p	1,100

Issued, called up and fully paid—Ordinary shares of 5p	£'000
Initial share subscription (£100)	—
Subscription on becoming a public limited company	50
Shares issued on merger with Comcap Holding AG	474
Shares issued for minority interests in C.C. Computer Capital Limited and CC Computer Capital GmbH	166
	690

8.9 Capital expenditure

At 31 December 1983 there were no outstanding contracts placed for capital expenditure. Capital expenditure had been authorised by the Directors for which contracts had not been placed amounting to £40,000.

8.10 Details of subsidiaries

The Group consisted of the following companies at 3 May 1984:

	Group holding (per cent)	Country of incorporation	Date of incorporation
Computer Capital International Limited	100	England	3 Nov 1983
Comcap Resources Limited	75	England	4 Dec 1980
C.C. Computer Capital Limited	100	England	3 May 1978
Comcap Group Services Limited	100	England	18 Apr 1980
CC Computer Capital GmbH	100	West Germany	6 Nov 1980
Comcap Holding AG	100	Switzerland	2 Jun 1971
Comcap Financial Services AG	100	Switzerland	17 Jun 1977
Comcap AG	60	Switzerland	21 Mar 1983
Comcap B.V.	70	The Netherlands	27 Jul 1978
CMA Comcap A/S	70	Denmark	8 Aug 1980
CMA Danmark A/S*	49	Denmark	2 Nov 1982
CMA Computers A/S*	52.5	Denmark	1 Nov 1983

*CMA Danmark A/S and CMA Computers A/S are respectively 70 per cent and 75.1 per cent owned and controlled by CMA Comcap A/S. CMA Computers A/S is currently registered under the name ApS HVBPD 6, number 706.

9 Company balance sheet at 31 December 1983

The audited balance sheet of the Company at 31 December 1983 comprised:

	£	£
Cost of investment in subsidiary companies		7,252
Current assets		
Cash at bank	205	
Current liabilities		
Creditors	7,357	
Net current liabilities		7,152
		100
Share capital		
Called up share capital		100

The investment in subsidiary companies as at 31 December 1983 consisted of a 100 per cent shareholding in Computer Capital International Limited and a 75 per cent shareholding in Comcap Resources Limited.

10 Consolidated pro forma balance sheet at 31 December 1983 after the Offer for Sale

The consolidated pro forma balance sheet of the Group at 31 December 1983 below adjusts the consolidated balance sheet at 31 December 1983 to reflect the proceeds of the Offer for Sale. Cash has been increased by £2,935,000, called up share capital by £149,000 and share premium by £2,786,000. No other adjustments have been made.

	£'000	£'000
Fixed assets		
Tangible fixed assets		167
Investment in operating leases		2,933
Investment in finance leases		811
Current assets		
Stocks	432	
Debtors	2,964	
Lease payments receivable within one year	1,889	
Cash	3,684	
	8,969	
Current liabilities		
Creditors	4,201	
Lease obligations payable within one year	2,102	
Bank loans and overdrafts	371	
	6,674	
Net current assets		2,295
Loan due after one year		(106)
Provisions		(1,306)
Minority interests		(125)
		4,669
Share capital and reserves		
Called up share capital		839
Share premium		2,786
Reserves		1,044
		4,669

Yours faithfully,

THOMSON McLINTOCK & CO

Chartered Accountants

Appendix II

STATUTORY AND GENERAL INFORMATION

1 The Company

(i) The Company was incorporated in England on 3 November 1983 with registered number 1766905 as a private company with limited liability under the Companies Acts 1948 to 1981 with the name of Belthold Limited. The name of the Company was changed to Comcap Limited on 2 December 1983. On 28 March 1984 the Company was re-registered as a public limited company with its present name.

(ii) The Company was incorporated with an authorised share capital of £100 divided into 100 Ordinary shares of £1 each of which two such shares were subscribed for cash at par. On 30 November 1983 98 Ordinary shares of £1 each were issued for cash at par.

(iii) By or pursuant to a Special Resolution passed on 21 March 1984:—

(a) each existing Ordinary share of £1 was sub-divided into 10 Ordinary shares of 10p each;

(b) the authorised share capital of the Company was increased from £100 to £2,500,000 by the creation of 24,999,000 Ordinary shares of 10p each;

(c) the Directors were generally and unconditionally authorised, pursuant to section 14 of the Companies Act 1980, to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £2,499,000, such authority to expire on 20 March 1989;

(d) the Directors were empowered until the conclusion of the Annual General Meeting in 1985 to allot equity securities (as defined in section 17 of the Companies Act 1980) pursuant to the authority referred to in (c) above as if section 17(1) of the Companies Act 1980 did not apply to the allotment, provided that such power is limited to:—

(1) the allotment of equity securities in connection with a rights issue in favour of the holders of Ordinary shares (notwithstanding that by reason of such exclusions as the Directors may deem necessary to deal with problems arising in any overseas territory, in connection with fractional entitlements or otherwise howsoever, the equity securities to be issued are not offered to all of such holders in proportion to the number of Ordinary shares held by each of them); and

(2) the allotment (otherwise than pursuant to (1) above) of equity securities up to an aggregate nominal amount of £524,900;

(e) the Company was converted into a public company, changed its name to its present name and made consequential alterations to its Memorandum of Association; and

(f) new Articles of Association of the Company were adopted.

(iv) On 21 March 1984 499,000 Ordinary shares of 10p each were allotted for cash at par.

(v) By or pursuant to a Special Resolution passed on 3 May 1984:—

(a) 14,000,000 of the unissued Ordinary shares of 10p each were cancelled with the result that the authorised share capital was diminished to £1,100,000;

(b) each of the issued and remaining unissued Ordinary shares of 10p was sub-divided into two Ordinary shares of 5p each;

(c) the Company adopted the Comcap Share Option Scheme 1984 (details of which are set out in paragraph 8 below);

(d) the authority given pursuant to section 14 of the Companies Act 1980 referred to in (iii) (c) above was varied so as to reduce the aggregate nominal amount of relevant securities which the Directors were authorised to allot to £1,050,000; and

(e) the power granted to the Directors referred to in paragraph (iii) (d) (2) above was limited to an aggregate nominal amount of £348,456 of which £55,000 will remain unutilised immediately following the Offer for Sale.

(vi) On 3 May 1984:—

(a) 9,480,000 Ordinary shares of 5p each were issued by way of consideration for the acquisition by the Company of the issued share capital of Comcap Holding AG pursuant to the agreement referred to in paragraph 11 (vii) below; and

(b) 1,657,010 Ordinary shares of 5p each were issued by way of consideration for the acquisition of 30 per cent of the issued share capital of C.C. Computer Capital Limited pursuant to the agreement referred to in paragraph 11 (vii) below.

(c) conditionally on the Ordinary shares of the Company, issued and to be issued, being admitted to the Official List by the Council of The Stock Exchange not later than 16 May 1984, the Directors allotted 2,978,280 new Ordinary shares of 5p each to Wardley London Limited ("Wardley") pursuant to the Offer for Sale Agreement referred to in paragraph 6 below and granted to employees of the Group options to subscribe for a total of 375,000 Ordinary shares of 5p each of the Company exercisable at the Offer for Sale price of 120p per share under the Comcap Share Option Scheme 1984;

(d) 1,657,010 Ordinary shares of 5p each of the Company were issued by way of consideration for the acquisition of 25 per cent of the issued share capital of CC Computer Capital GmbH pursuant to the agreement referred to in paragraph 11 (viii) below; and

(e) the Company was granted and conferred options pursuant to the agreements referred to in paragraph 4 (iii) below whereby the Company may purchase or may be required to purchase shares in certain of its subsidiaries. Such purchases may involve the issue of up to 2,515,845 Ordinary shares of the Company (subject to adjustment for reorganisations of capital) as described in paragraph 4 (iii).

(vii) Following the Offer for Sale becoming unconditional 2,211,855 Ordinary shares of 5p each will remain unissued (and not committed under the terms of the Comcap Share Option Scheme 1984 or the option agreements referred to in paragraph 4(iii) below) and over which the Directors will have authority to allot under section 14 of the Companies Act 1980, but no issue of such shares will be made which would effectively alter the control of the Company and no material issue of shares of the Company (other than consequent upon an offer to shareholders *pro rata* to their existing shareholdings) will be made within one year of the date of the Offer for Sale, without in either case the prior approval of the Company in General Meeting.

2. Subsidiaries

(i) The Company has the following subsidiaries (all being private companies):—

Name	*Country and date of incorporation*	*Issued and fully paid share capital*	*Business*
Computer Capital International Limited	England 3 November 1983	£100	Holding Company
Comcap Holding AG	Switzerland 2 June 1971	S. Fr. 1,500,000	Holding Company
C.C. Computer Capital Limited	England 3 May 1978	£100,100	Dealing/financing IBM equipment
CC Computer Capital GmbH	West Germany 6 November 1980	DM200,000	Dealing/financing IBM equipment
Comcap B.V.	The Netherlands 27 July 1978	D. Fl. 200,000	Dealing/financing IBM equipment
Comcap Financial Services AG	Switzerland 17 June 1977	S. Fr. 200,000	Financial services and dealing
Comcap AG	Switzerland 21 March 1983	S. Fr. 500,000	Dealing/financing IBM equipment
CMA Comcap A/S	Denmark 8 August 1980	D.Kr. 250,000	Dealing/financing IBM equipment
CMA Danmark A/S	Denmark 2 November 1982	D.Kr. 300,000	Dealing/financing IBM equipment
*CMA Computers A/S	Denmark 1 November 1983	D.Kr. 300,000	Dealing/financing IBM equipment
Comcap Group Services Limited	England 18 April 1980	£100	Financial services and dealing
Comcap Resources Limited	England 4 December 1980	£1,010	Recruiting IBM specialist computer staff

*CMA Computers A/S is currently registered under the name ApS HVBPD 6 No. 706 and is in the process of being re-registered under its proposed new name.

(ii) All the subsidiaries are wholly-owned, directly or indirectly by the Company except to the extent indicated below:—

Company	Minority interest (per cent)	Minority shareholder
CMA Comcap A/S	30	B. D. Pedersen
CMA Danmark A/S	30	H. V. Lorentsen
Comcap Resources Limited	25	P. Madams
Comcap B.V.	30	D. M. Vogelaar
Comcap AG	40	B. Spaeti
CMA Computers A/S	24.9	O. Marxen

(iii) The following issues of shares by subsidiaries of the Company have been made since 4 May 1982:—

(a) Computer Capital International Limited was incorporated on 3 November 1983 with 2 subscribers' shares of £1 each issued at par. On 30 November 1983 it issued 98 Ordinary shares of £1 each to the Company for cash at par.

(b) On 22 December 1983 the authorised share capital of Comcap Resources Limited was increased from £1,000 to £1,010 by the creation of 1,000 new Ordinary shares of 1p each which were issued by way of capitalisation of reserves to the existing shareholders and the existing 1,000 Ordinary shares of £1 each were converted into Deferred shares of £1 each.

(c) On 31 December 1982 the authorised share capital of C.C. Computer Capital Limited was increased from £50,000 to £100,000 by the creation of 50,000 new A Ordinary shares of £1 each which were issued by way of capitalisation of reserves to the existing shareholders and the existing 50,000 Ordinary shares of £1 each were converted into 1 per cent Non Cumulative Preference shares of £1 each. On 3 May 1984 the authorised share capital was increased to £100,100 by the creation of 100 new Ordinary shares of £1 each which were issued by way of capitalisation of reserves to holders of the A Ordinary shares and all the existing issued shares were converted into Deferred shares of £1 each.

(d) On 21 March 1983 Comcap AG was incorporated with an authorised share capital of S. Fr. 500,000 divided into 500 shares of S. Fr. 1,000 each all of which were issued to Comcap Holding AG for cash.

(e) On 2 November 1982 CMA Danmark A/S was incorporated with an authorised share capital of D.Kr. 30,000 all of which was issued to the subscribers. On 2 June 1983 the authorised share capital was increased to D. Kr. 300,000 of which D.Kr. 81,000 nominal was issued to B. D. Pedersen and D.Kr. 189,000 nominal was issued to CMA Comcap A/S for cash.

(f) On 1 November 1983 CMA Computers A/S was incorporated with an authorised share capital of D. Kr. 80,000 all of which was issued to the subscribers. On 22 March 1984 the authorised share capital was increased to D. Kr. 300,000 and D. Kr. 74,700 nominal was subscribed by O. Marxen and the balance by CMA Comcap A/S for cash.

3. Directors' and Other Interests

(i) The interests of the Directors (all beneficial) including the interests of their wives and minor children in the share capital of the Company, as required to be disclosed under the provisions of the Companies Act 1967, and as they will be following the Offer for Sale becoming unconditional (excluding any shares which Lord Selsdon may purchase under this Offer for Sale) and the percentages of the applicable issued share capital of the Company represented thereby, are as follows:—

	Ordinary shares of 5p each held at 4 May 1984		Ordinary shares of 5p each held following the Offer for Sale	
Name	Number	Per cent	Number	Per cent
E. Schneider	7,541,190	54.67	6,196,272	36.94
N. C. Kennedy Scott	1,786,510	12.95	1,450,281	8.65
J. W. Rumbellow	893,300	6.48	725,185	4.32
M. R. Dudley	1,786,510	12.95	1,450,281	8.65
H. H. Gottinger	1,786,510	12.95	1,450,281	8.65
Lord Selsdon	—	—	—	—

(ii) Conditionally on the Ordinary shares of the Company, issued and to be issued, being admitted to the Official List by the Council of The Stock Exchange not later than 16 May 1984, the Company has granted under the Comcap Share Option Scheme 1984 described in paragraph 8 below, options to subscribe for a total of 375,000 Ordinary shares of 5p each of the Company exercisable at the Offer for Sale price of 120p per share between 3 May 1987 and 2 May 1991 and otherwise in accordance with the provisions of the Scheme to 21 employees of the Group. Pursuant to the Comcap Share Option Scheme 1984 each employee paid £1 in consideration for the grant of the option.

(iii) Save for the interests disclosed in (i) above, the Directors are not aware of any other shareholdings which will, immediately after the Offer for Sale, represent 5 per cent or more of the issued share capital of the Company.

(iv) On 3 May 1984 J. W. Rumbellow and N. C. Kennedy Scott entered into service agreements as joint managing directors of the Company terminable on or at any time after 30 April 1987 by either party on giving to the other not less than 12 months' notice. Each of the agreements provides for an annual salary of £40,000 together with a bonus at the rate of 1½ per cent of the consolidated net profits of the Group before taxation.

(v) On 3 May 1984 M. R. Dudley entered into a service agreement as managing director of C.C. Computer Capital Limited terminable on or at any time after 30 April 1987 by either party on giving to the other not less than 12 months' notice. The agreement provides for an annual salary of £40,000 together with a bonus at the rate of 5 per cent of the net profits before taxation of C.C. Computer Capital Limited.

(vi) On 3 May 1984 H. H. Gottinger entered into a service agreement as managing director of CC Computer Capital GmbH terminable on or at any time after 30 April 1987 by either party on giving to the other not less than 12 months' notice. The agreement provides for an annual salary of DM250,000 together with a bonus at the rate of 5 per cent of the net profits before taxation of CC Computer Capital GmbH.

(vii) Save as disclosed above no Director of the Company has a service agreement with the Company or any of its subsidiaries which does not expire or is not determinable by the employing company without payment of compensation (other than statutory compensation) within one year and no such contract is proposed.

(viii) The aggregate emoluments including bonuses of the Directors of the Company for the financial year ended 31 December 1983 received from all companies in the Group were £317,000. It is expected that their aggregate emoluments excluding bonuses for the financial year ending 31 December 1984 will be approximately £209,000.

(ix) E. Schneider, N. C. Kennedy Scott and J. W. Rumbellow are or may be deemed to be promoters of the Company. In respect of the financial year ended 31 December 1982, the aggregate amounts or benefits paid to them and their family companies comprising where appropriate, salaries, pension contributions, bonuses and expenses paid by all companies in the Group amounted to £134,000. The comparable figure for the financial year ended 31 December 1983 was £166,000 and for the current financial year ending 31 December 1984 is estimated to be, excluding any bonus payments, £96,000. On 13 April 1984 unsecured loans aggregating £384,000 were owing to companies controlled by E. Schneider by companies in the Group.

(x) In 1984 Comcap Group Services Limited purchased a motor car from M. R. Dudley for £4,500. Save as disclosed herein no Director of the Company:—

(a) has or has had any interest, direct or indirect, in any assets which, within the two years preceding the date of this Offer for Sale, have been, or are proposed to be, acquired or disposed of by, or leased to or by, any company in the Group; or

(b) is materially interested in any contract or arrangement subsisting at the date hereof which is significant in relation to the business of the Group taken as a whole.

4. Minority Interests

(i) (a) On 18 April 1984 B. Spaeti, managing director of Comcap AG, purchased shares in that company representing 40 per cent of the issued share capital from Comcap Holding AG for S.Fr.200,000 which was left outstanding as a loan.

(b) On 27 April 1984 D. M. Vogelaar, managing director of Comcap B.V., purchased shares in that company representing 30 per cent of the issued share capital (excluding treasury stock) from Comcap Holding AG for D.Fl. 36,158 which was left outstanding as a loan.

(ii) (a) On 24 April 1984 B. Spaeti entered into a service agreement as managing director of Comcap AG for a period expiring on 30 April 1986. The agreement provides for an annual salary of S.Fr. 100,000 together with a bonus at the rate of 20 per cent of the net profits before taxation of Comcap AG.

(b) On 27 April 1984 D. M. Vogelaar entered into a service agreement as managing director of Comcap B.V. for a period expiring on 30 April 1986. The agreement provides for an annual salary of D.Fl. 120,000 together with a bonus at the rate of 20 per cent of the net profits before taxation of Comcap B.V.

(c) On 27 April 1984 B. D. Pedersen entered into a service agreement as managing director of CMA Comcap A/S for a period expiring on 30 April 1986. The agreement provides for an annual salary of D.Kr. 396,000 together with a bonus at the rate of 5 per cent of the net profits before taxation of CMA Comcap A/S.

(d) On 27 April 1984 H. V. Lorentsen entered into a service agreement as managing director of CMA Danmark A/S for a period expiring on 30 April 1986. The agreement provides for an annual salary of D.Kr. 396,000 together with a bonus at the rate of 5 per cent of the net profits before taxation of CMA Danmark A/S.

(e) On 27 April 1984 P. Madams entered into a service agreement as managing director of Comcap Resources Limited for a period expiring on 30 April 1986. The agreement provides for an annual salary of £22,500 together with a bonus at the rate of 20 per cent of the net profits before taxation of Comcap Resources Limited.

(f) On 17 March 1984 O. Marxen entered into a service agreement as managing director of CMA Computers A/S (now registered under the name ApS HVBPD 6 No. 706) terminable on 9 months' notice by the company and 6 months' notice by O. Marxen. The agreement provides for an annual salary of D.Kr. 396,000 together with a bonus at the rate of 5 per cent of the net profits before taxation of CMA Computers A/S.

(iii) The managing directors of the Group's operating subsidiaries named below have each entered into agreements, conditionally upon the Ordinary shares of the Company, issued and to be issued, being admitted to the Official List by the Council of The Stock Exchange, under which agreements they are entitled to require the Company to purchase their respective shareholdings ("the Put Option") in the relative subsidiary and under which the Company is entitled

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to purchase the same shares ("the Call Option") subject to the terms and conditions of those agreements. The Put Option may be exercised at any time within the period of 28 days immediately following the preliminary announcement to The Stock Exchange, London of the final results of the Company for the immediately preceding financial year ended 31 December in each of the years from 1986 (1985 in the case of 2 subsidiaries) to 1990. The Call Option is exercisable during the 28 days following the Put Option period in 1990. The price payable by the Company for the minority shareholding in each subsidiary is calculated on the basis of the net profits before taxation of such subsidiary derived from its audited accounts multiplied by 12 if the Put Option is exercised in 1985 or 1986, 11 in 1987, 9 in 1988, 8 in 1989 and 7 in 1990, and multiplied by 7 if the Call Option is exercised in 1990. The Company may at its discretion satisfy all or part of the consideration payable in cash or (subject to the maximum limits for each person stated below) by the allotment credited as fully paid of Ordinary shares valued at the average of the middle market quotations for such shares for the 5 days following the preliminary announcement of the Company's results, such shares to rank *pari passu* with the existing Ordinary shares in respect of the financial period of the Company in which the option has been exercised. On the exercise of the Put Option the relevant managing director is required to enter into a 2 year service agreement with his subsidiary at his then salary, but his annual bonus thereunder is limited to 5 per cent of the net profits before taxation of such company. The managing directors who have entered into these option arrangements and the maximum number of Ordinary shares of the Company which may be allotted to them as consideration are B. D. Pedersen (838,617 shares), H. V. Lorentsen (419,307 shares), B. Spaeti (419,307 shares), D. M. Vogelaar (419,307 shares) and P. Madams (419,307 shares). B. D. Pedersen and H. V. Lorentsen have the right to exercise the Put Option in 1985 to 1990 inclusive and the other managing directors in 1986 to 1990 inclusive. It is intended in due course to enter into similar option arrangements with O. Marxen in respect of his minority shareholding in the newly established Danish subsidiary, CMA Computers A/S.

These agreements further provide that in the event that a managing director wishes to sell any shares in his subsidiary (other than under the Put Option) or dies, is declared bankrupt or ceases to be a director or employee of that subsidiary such shares shall be offered in the first instance to the Company at a price to be agreed between the parties and failing such agreement at a price to be determined by the auditors.

5. Articles of Association

The Articles of Association of the Company contain provisions, *inter alia*, to the following effect:—

(A) Share Capital

(i) Any share may, with the sanction of a Special Resolution, be issued on the terms that it is, or at the option of the Company or of the holder of such share is liable, to be redeemed.

(ii) Subject to the provisions of the Statutes (as defined in the Articles of Association), the Company may purchase any of its own shares and may (subject to any directions which may be given by the Company in General Meeting) make a market purchase (within the meaning of section 49 of the Companies Act 1981) of any of its own shares.

(B) Voting

(i) At a General Meeting on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by representative or by proxy has one vote, and in the case of a poll every member present in person, by representative or by proxy has one vote for every share of which he is the holder.

(ii) If at any time a member or other person appearing to be interested in any shares fails to comply with a notice under section 74 of the Companies Act 1981, then not earlier than 42 days after the service of such notice, the Company may serve on such member a "disenfranchisement notice" stating that such shares shall with effect from the service of such notice confer on him no right to vote either at any General Meeting or at any separate General Meeting of the holders of the shares of that class. A person shall be treated as appearing to be interested in any shares if the member holding such shares has given to the Company a notification under the said section 74 which fails to establish the identities of those interested in the shares and if (after taking into account the said notification and any other relevant section 74 notification) the Company knows or has reasonable cause to believe that the person in question is or may be interested in the shares.

(C) Modification of Rights

(i) If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights or privileges attached to any class of shares may be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence of any such provision, either with the written consent of the holders of not less than three-fourths in nominal value of the issued shares of the class or with the sanction of an Extraordinary Resolution passed by a separate meeting of the holders of shares of the class.

(ii) Subject to the terms on which any shares may be issued, the rights or privileges attached to any class of shares in the capital of the Company are deemed to be varied or abrogated by the reduction of the capital paid up on such shares or by the allotment of further shares ranking in priority thereto for payment of a dividend or repayment of capital but are not deemed to be varied or abrogated by the creation or issue of any new shares ranking *pari passu* in all respects (save as to the date from which such new shares rank for dividend) with or subsequent to those already issued.

(D) Borrowing Powers

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue debentures and other securities. The Directors shall ensure that the aggregate amount for the time being outstanding in respect of borrowings, excluding intra-Group borrowings, shall not at any time, without the previous sanction of the Company in General Meeting, exceed an amount equal to ten times the adjusted capital and reserves (as defined in the Articles of Association).

(E) Directors

(i) A Director is not required to hold any qualification shares.

(ii) The maximum aggregate fees payable to the Directors is £20,000 per annum or such greater sum as may be determined by the Company in General Meeting and (unless otherwise determined) is to be divided amongst the Directors as the Board agrees and failing agreement equally. The Directors are also entitled to be repaid all travelling and hotel expenses incurred by them respectively in or about the performance of their duties as Directors. If by arrangement with the Board any Director performs any special duties outside his ordinary duties as a Director, the Board may pay him special remuneration (in addition to any fees or ordinary remuneration) which may be by way of a lump sum or by way of salary, commission, participation in profits or otherwise.

(iii) The Directors may establish and maintain any contributory or non-contributory pension or superannuation funds for the benefit of, and grant emoluments, pensions, allowances, donations, gratuities and bonuses to, any persons who are or were employees of any company in, or associated in business with, the Company or its subsidiaries or who are or were Directors or officers of any such company and the family and dependants of any such persons.

(iv) A Director may be appointed by the Directors to the office of Managing Director and/or any other office or place of profit under the Company (except that of Auditor) for such period, on such terms and at such remuneration as the Directors may determine.

(v) No Director or intending Director is disqualified by his office from contracting with the Company nor is any contract or arrangement entered into on behalf of the Company in which any Director is in any way interested liable to be avoided nor is any Director so contracting or being so interested liable to account to the Company for any profit realised thereby, but the nature of his interest must be declared by the Director at a meeting of the Board.

(vi) Save as provided below, a Director may not vote in respect of any contract or arrangement or any other proposal whatsoever in which he has any material interest otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company. A Director will not be counted in the quorum of a meeting in relation to any resolution on which he is debarred from voting.

(vii) A Director is (in the absence of some other material interest than is indicated below) entitled to vote (and will be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:—

(a) the giving of any security or indemnity to him in respect of money lent or obligations incurred by him at the request of and for the benefit of the Company or any of its subsidiaries;

(b) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

(c) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting thereof;

(d) any proposals concerning any other company in which he is interested directly or indirectly and whether as an officer or shareholder or otherwise howsoever, provided that he is not the holder of or is beneficially interested in 1 per cent or more of any class of the equity share capital of such company (or of any third company through which his interest is derived) or of the voting rights available to members of the relevant company; and

(e) any proposal concerning the adoption, modification or operation of a superannuation fund or retirement, death or disability benefit scheme under which he may benefit and which has been approved by or is subject to and conditional on approval by the Board of Inland Revenue for taxation purposes.

(viii) Where proposals are under consideration concerning the appointment (including fixing or varying the terms of employment) of two or more Directors to offices or employments with the Company or any company in which the Company is interested, such proposals may be divided and considered in relation to each Director separately. In such a case each of the Directors concerned (if not debarred from voting under sub-paragraph (vii) (d) above) is entitled to vote (and will be counted in the quorum) in respect of each resolution except that concerning his own appointment.

(ix) Subject to the provisions of the Statutes, the Company may by Ordinary Resolution suspend or relax the provisions summarised under paragraphs (v), (vi), (vii) and (viii) above to any extent or ratify any transaction not duly authorised by reason of a contravention of such provisions.

(x) The Articles of Association contain a provision to exclude the operation of section 185 of the Companies Act 1948 and accordingly no special notice is required of any resolution appointing or approving the appointment of a Director who has attained the age of 70.

6. Offer for Sale Agreement

By an Offer for Sale Agreement dated 3 May 1984 made between the Company (i), the vendor shareholders and Mrs. E. Schneider (ii), the Directors of the Company (iii) and Wardley (iv), Wardley has agreed, conditionally upon the Ordinary shares of the Company, issued and to be issued, being admitted to the Official List by the Council of The Stock Exchange not later than 16 May 1984:—

(i) to purchase from each of the vendor shareholders specified below the number of Ordinary shares set against the name of that vendor shareholder, aggregating 2,521,720 Ordinary shares, at a price of 117.2p per share;

(ii) to subscribe 2,978,280 new Ordinary shares at 120p per share; and

(iii) to offer all such 5,500,000 Ordinary shares to the public at 120p per share.

The Agreement contains warranties given by the Company, the Directors, the vendor shareholders and Mrs. E. Schneider in favour of Wardley regarding the Group and the accuracy of the information supplied for the purpose of the Offer for Sale. Each of the vendor shareholders and Mrs. E. Schneider has undertaken not without the prior consent of Wardley to dispose of any of their holding of shares held following the Offer for Sale before 30 June 1986 and thereafter and prior to 30 June 1990 not without such consent to dispose of more than 5 per cent of their holding of shares held following the Offer for Sale in any period of 12 months.

The costs, charges and expenses of and incidental to the Offer for Sale, including the cost of preparing, printing, circulating and advertising the Offer for Sale and other documents in connection therewith, capital duty in respect of the increase in and reorganisation of the share capital of the Company, all accounting expenses, the Registrars' fees and expenses, the Receiving Bankers' fees and expenses, legal expenses and the fees payable to The Stock Exchange and Wardley, are estimated to amount to £700,000 (excluding value added tax) of which £639,000 is payable by the Company and the remainder is to be paid out of the difference between the Offer for Sale price and the price paid by Wardley to the vendor shareholders. Wardley will pay a commission to sub-underwriters of 1¼ per cent of the Offer for Sale price and a fee to the brokers.

The vendor shareholders and the number of Ordinary shares which they have agreed to sell pursuant to the Offer for Sale are: E. Schneider (1,344,918), J. W. Rumbellow (168,115), N. C. Kennedy Scott (252,172), Mrs. P. M. Kennedy Scott (84,057), M. R. Dudley (336,229) and H. H. Gottinger (336,229).

7. Premises

The Company and its subsidiaries hold the following properties all of which are leasehold:—

Company	Property	Use	Expiry date	Current annual rent and next review date	Approximate net internal floor area (m^2)
Comcap Group Services Limited	26 Chilworth Street, London W2 6DT, England	Offices and residential	30 April 1999	£12,000 (currently under review) 1 May 1987	211
CMA Comcap A/S	1st Floor, 11 Forchhammersvej, 1920 Copenhagen V, Denmark	Offices	1 September 1988	D.Kr. 82,500 1 January 1985	175
CMA Comcap A/S	1st Floor, 10 Carl Plougsvej, 1920 Copenhagen V, Denmark	Storage	1 September 1988	D.Kr. 18,000 1 January 1985	90
Comcap B.V.	Croonstadtlaan 4B, 3641 Al Mijdrecht, Netherlands	Offices	30 June 1985 (option to extend for further 2 years)	D.Fl. 13,800 1 January 1985	115
Comcap AG	Bellariastrasse 7, 8002 Zurich, Switzerland	Offices	31 March 1985 (option to extend for further 3 years)	S.Fr. 23,526 30 September 1984	103
*C.C. Computer Capital Limited	3rd Floor flat, Goswell House, Peascod Street, Windsor, Berkshire, England	Residential	28 September 1988	£4,000	50
*C.C. Computer Capital Limited	2nd Floor, Goswell House, Peascod Street, Windsor, Berkshire, England	Offices	28 September 2008	£22,000 29 September 1988	150
C C Computer Capital GmbH	Brunnenstrasse 4A and 4B, 6232 Bad Soden Am Taunus, Germany	Offices	1 April 1989 (renewable for 2 years)	DM 38,580 indexed subject to agreement	230
C C Computer Capital GmbH	Richard-Wagner-Strasse 3, 6232 Bad Soden Am Taunus, Germany	Offices	30 November 1985 (renewable for 1 year)	DM 18,720	120

*These properties are occupied subject to formal completion of leases which is expected to take place shortly

8. Share Option Scheme

On 3 May 1984 the Company adopted the Comcap Share Option Scheme 1984 under which options to subscribe for Ordinary shares of the Company may be granted. Particulars of the Scheme (the terms of which are set out in full in the Rules) are as follows:—

(i) full-time employees of the Company or any of its subsidiaries may be offered by the Directors options to subscribe for Ordinary shares of the Company;

(ii) *the price per share at which an option will be exercisable will be determined by the Directors and will be* not less than the greater of the nominal value of an Ordinary share and the middle market quotation for an Ordinary share on the business day preceding the date of grant based on The Stock Exchange Daily Official List, provided that the price in respect of any option granted before dealings commence shall be the Offer for Sale price of 120p per share;

(iii) the consideration for the grant of each option will be £1;

(iv) no individual may be offered an option or options over Ordinary shares for which the total amount to be subscribed on the exercise of such options (together with any options already held by him) is in excess of four times his gross annual fixed salary from time to time;

(v) up to 500,000 Ordinary shares (being 2.98 per cent of the issued Ordinary share capital following the Offer for Sale) will be available for issue under the Scheme. The number of shares available for issue, the number comprised in each option and the subscription price applicable to each option may be adjusted to take account of any reorganisation of the Company's Ordinary share capital;

(vi) options may be offered during the ten years commencing on 3 May 1984 on two occasions in any calendar year: during the period of six weeks from each of (i) the preliminary announcement of the Company's results for the preceding year and (ii) the publication of its interim results. The first grant of options may be made within six weeks of the adoption of the Scheme and has already taken place, as detailed in paragraph 3 above;

(vii) an option under the Scheme will normally be exercisable by the holder at any time after the third anniversary but not later than the seventh anniversary of the date on which the option was granted. However, options may be exercised earlier than three years after the date of grant if the holder retires either at normal retiring age, or through illness, disability or redundancy, or if the holder dies in service, or otherwise at the sole discretion of the Directors;

(viii) *options may also be exercised in the event of a change of control of the Company pursuant to an offer being* made to the holders of Ordinary shares of the Company and in the event of a winding-up of the Company option holders may elect to be treated as if they had exercised their options immediately prior to the winding-up;

(ix) Ordinary shares allotted on the exercise of options will rank *pari passu* in all respects with the Ordinary shares in issue on the date of such exercise;

(x) options are personal to the participants to whom they are granted or their personal representatives in the event of death; and

(xi) the Directors may amend the terms of the Scheme but no amendments may be made which would adversely *affect any rights already acquired by an option holder without his consent, nor may certain principal* provisions of the Scheme be altered without the prior approval of the Company in General Meeting.

9. Taxation

(i) The Directors have been advised that, following the Offer for Sale, the Company will continue to be a close company within the meaning of the Income and Corporation Taxes Act 1970.

(ii) Clearance under section 464 of the Income and Corporation Taxes Act 1970 has been obtained in respect of the Group reorganisation carried out during 1984 in preparation for the Offer for Sale.

(iii) Under a Deed of Indemnity dated 3 May 1984 between the vendor shareholders named in paragraph 6 above and Mrs. E. Schneider (i), the Company (ii), the U.K. subsidiaries of the Company (iii) and Wardley (iv), the vendor shareholders and Mrs. E. Schneider have given certain indemnities in respect of taxation including shortfall, estate duty and capital transfer tax.

10. Working Capital

The Directors of the *Company are satisfied that, taking account of the Group's existing bank facilities and the* estimated net proceeds of the Offer for Sale to be received by the Company, the Company and its subsidiaries have sufficient working capital for their present requirements.

11. Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into since 4 May 1982 and are or may be material:—

(i) dated 22 December 1983 made between Comcap Holding AG (i), the Company (ii), E. Schneider (iii), N. C. Kennedy Scott (iv), J. W. Rumbellow (v), Comcap B.V. (vi) and P. Madams (vii) being the agreement *whereby the Company purchased 750 Ordinary shares of 1p each and 750 Deferred shares of £1 each of* Comcap Resources Limited (representing 75 per cent of each class of shares in issue) for an aggregate consideration of £7,152 which was left outstanding as unsecured loans from each of the shareholders to the Company repayable on demand and which have since been repaid in full. The percentages of each class of shares sold by the shareholders to the Company were: Comcap Holding AG (12.5 per cent), E. Schneider (13.3 per cent), N. C. Kennedy Scott (13.3 per cent), J. W. Rumbellow (15.9 per cent), Comcap B.V. (15 per cent) and P. Madams (5 per cent). P. Madams retained 25 per cent of each class of shares;

(ii) dated 22 December 1983 (as amended on 21 February 1984) made between Comcap B.V. (i) and Comcap Holding AG (ii) being the agreement whereby Comcap B.V. sold 33.4 per cent of the issued share capital *of CMA Comcap AB for a consideration of D. Fl. 575,000;*

(iii) dated 30 December 1983 made between Comcap Holding AG (i) and J. Nordlund and B. Ohlen (ii) being the agreement whereby Comcap Holding AG sold 33.4 per cent of the issued share capital of CMA Comcap AB for an aggregate consideration of Sw.Kr.1,500,000;

(iv) dated 30 December 1983 made between CMA Comcap AB (i) and Comcap Holding AG (ii) being the agreement whereby Comcap Holding AG purchased 70 per cent of the issued share capital of CMA Comcap A/S for a consideration of Sw.Kr.1,500,000;

(v) dated 18 April 1984 made between B. Spaeti (i) and Comcap Holding AG (ii) being the agreement referred to in paragraph 4(i) (a) above;

(vi) dated 27 April 1984 made between Comcap Holding AG (i) and D.M. Vogelaar (ii) being the agreement referred to in paragraph 4(i)(b) above;

(vii) dated 3 May 1984 made between Comcap Holding AG (i), the Company (ii), E. Schneider (iii), Mrs. E. Schneider (iv), N. C. Kennedy Scott (v), Mrs. P. M. Kennedy Scott (vi), J. W. Rumbellow (vii) and M. R. Dudley (viii) being the agreement whereby (a) the Company purchased 70 per cent of the issued share capitals of Comcap B.V. and CMA Comcap A/S from Comcap Holding AG for an aggregate consideration of £147,263 which was left outstanding as an unsecured loan, (b) the Company purchased the issued share capital of Comcap Holding AG for an aggregate consideration satisfied by the allotment at par of 9,480,000 Ordinary shares of 5p each of the Company, (c) the Company purchased 30 per cent of the issued share capital of C.C. Computer Capital Limited from M. R. Dudley for a consideration satisfied by the allotment at par of 1,657,010 Ordinary shares of 5p each of the Company and (d) the Company purchased 70 per cent of the issued share capital of C.C. Computer Capital Limited and 75 per cent of the issued share capital of C.C. Computer Capital GmbH from Comcap Holding AG for an aggregate consideration of £620,152 *which was left outstanding as an unsecured loan. The percentages of the share capital of Comcap Holding* AG sold by its shareholders to the Company and the number of Ordinary shares of 5p each of the Company allotted as consideration were: E. Schneider (55 per cent and 5,746,210 shares), Mrs. E. Schneider (15 per cent and 1,248,280 shares), N. C. Kennedy Scott (15 per cent and 1,242,760 shares), Mrs. P. M. Kennedy Scott (5 per cent and 414,250 shares) and J. W. Rumbellow (10 per cent and 828,500 shares);

(viii) dated 3 May 1984 made between the Company (i) and H. H. Gottinger (ii) being the agreement for the purchase by the Company of 25 per cent of the issued share capital of CC Computer Capital GmbH for a consideration satisfied by the allotment at par to H. H. Gottinger of 1,657,010 Ordinary shares of 5p each of the Company;

(ix) *dated 3 May 1984 made between the Company (i) and Computer Capital International Limited* ("International") (ii) being the agreement for the purchase by International from the Company of the issued share capitals of Comcap Holding AG and CC Computer Capital GmbH and 70 per cent of the issued share capitals of Comcap B.V. and CMA Comcap A/S for an aggregate consideration of £794,570.50 which was left outstanding as an unsecured loan;

(x)–(xiv) dated 3 May 1984 respectively made between the Company (i) and each of CMA Comcap A/S and B. D. Pedersen, CMA Danmark A/S and H. V. Lorentsen, Comcap Resources Limited and P. Madams, Comcap B.V. and D. M. Vogelaar and Comcap AG and B. Spaeti (ii) being the agreements referred to in paragraph 4 (iii) above;

(xv) dated 3 May 1984 made between the vendor shareholders named in paragraph 6 above and Mrs. E. Schneider (i) and the Company (ii) being the deed of waiver of dividends referred to under "Earnings per Share and Dividends" above;

(xvi) dated 3 May 1984 made between the Company (i), the vendor shareholders named in paragraph 6 above *and Mrs. E. Schneider (ii), the Directors of the Company (iii) and Wardley (iv) being the Offer for Sale* Agreement referred to in paragraph 6 above; and

(xvii) dated 3 May 1984 made between the vendor shareholders named in paragraph 6 above and Mrs. E. Schneider (i), the Company (ii), the U.K. subsidiaries of the Company (iii) and Wardley (iv), being the Deed of Indemnity referred to in paragraph 9(iii) above.

12. Miscellaneous

(i) Since 4 May 1982, save as disclosed in paragraphs 1, 2, 3, 4 and 6 above:—

(a) no capital of the Company or of any of its subsidiaries has been issued or is proposed to be issued fully or *partly paid either for cash or for a consideration other than cash;* and

(b) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or of any of its subsidiaries.

(ii) Save as disclosed in paragraphs 1, 3 and 4 above, no capital of the Company or of any of its subsidiaries is under option or has been agreed conditionally or unconditionally to be put under option.

(iii) The Ordinary shares of 5p each of the Company now offered for sale rank *in full for all dividends* and other distributions hereafter declared, paid or made.

(iv) Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

(v) Save as disclosed herein, there have been no material changes in the trading or financial position of the Company and its subsidiaries since 31 December 1983 (the date to which the last audited accounts of the Company have been made up).

(vi) The minimum amount which, in the opinion of the Directors, will be required to be raised by the Company by the issue of the shares now being offered is £3,570,000 which, in relation to the matters specified in paragraph 4(a) of Part I of the Fourth Schedule to the Companies Act 1948, is made up as follows: (i) purchase price of property—nil, (ii) preliminary expenses and commissions—nil, (iii) repayment of moneys borrowed in respect of any matters in (i) and (ii) above—nil, and (iv) working capital—£3,570,000.

(vii) The *preliminary expenses* amounted to £200 and have been paid by the Company.

(viii) The amount payable on application for each Ordinary share of 5p is the Offer for Sale price of 120p per share of which 115p is payable by way of premium. The proceeds of the subscription of the 2,978,280 Ordinary shares of the Company by Wardley pursuant to the Offer for Sale Agreement referred to in paragraph 6 above will be £3,573,936 which, after expenses to be borne by the Company estimated at £639,000 (excluding value added tax), produces a net amount to be received by the Company of *approximately £2,935,000.*

(ix) The financial information contained in this Offer for Sale does not amount to full individual accounts within the meaning of section 11 of the Companies Act 1981. Full individual accounts for the Company and its UK subsidiaries relating to each accounting reference period for which the financial information relates have been delivered to the Registrar of Companies. The auditors have made a report under section 14 of the Companies Act 1967 in respect of each such set of accounts and each such report was an unqualified report within the meaning of section 43 of the Companies Act 1980.

(x) Wardley was incorporated in England under the Companies Acts 1929 and 1947 and its registered number is 455106. Its registered office is at Wardley House, 7 Devonshire Square, London EC2M 4HN.

(xi) On admission to the Official List of The Stock Exchange *the Ordinary shares will not be "wider range investments"* within the meaning of the Trustee Investments Act 1961.

(xii) The Council of The Stock Exchange has granted a Certificate of Exemption under Section 39 of the Companies Act 1948.

13. Consent

Thomson McLintock & Co have given and not withdrawn their written consent to the issue of the Offer for Sale with the inclusion herein of their report and the references thereto in the form and context in which they are included.

14. Documents delivered to the Registrar of Companies

The documents delivered to the Registrar of Companies for registration with copies of the Offer for Sale were copies of the Application Form, the above-mentioned written consent, a statement of the adjustments made by Thomson McLintock & Co in arriving at the figures set out in their report and giving the reasons therefor and copies of the above-mentioned material contracts.

15. Documents for Inspection

Copies of the following documents will be available for inspection at the offices of Norton, Rose, Botterell & Roche, *Kempson House, Camomile Street,* London EC3A 7AN *during normal business hours on any weekday (Saturdays and* Public Holidays excepted) until 22 May 1984:

(i) the Memorandum and Articles of Association of the Company;

(ii) the audited consolidated accounts of the Company for the period ended 31 December 1983 and the audited accounts of each of the companies in the Group (where applicable) for the two financial years ended 31 December 1982 and 31 December 1983;

(iii) the above-mentioned Accountants' Report of Thomson McLintock & Co and the statement of adjustments relating thereto;

(iv) the above-mentioned material contracts;

(v) the above-mentioned written consent;

(vi) the above-mentioned service agreements of the Directors of the Company; and

(vii) the *Rules of the Comcap Share Option Scheme 1984.*

Dated 4 May 1984.

PROCEDURE FOR APPLICATION

Applications must be for a minimum of 100 shares and thereafter for the following multiples of shares:

Applications for not more than 1,000 shares:	in multiples of 100 shares
Applications for over 1,000 shares and not more than 5,000 shares:	in multiples of 500 shares
Applications for over 5,000 shares and not more than 20,000 shares:	in multiples of 1,000 shares
Applications for over 20,000 shares and not more than 50,000 shares:	in multiples of 5,000 shares
Applications for over 50,000 shares:	in multiples of 10,000 shares

Applications must be made on the accompanying Application Form which, together with a sterling cheque or banker's draft for the full amount payable on application, should be forwarded to Midland Bank plc, Stock Exchange Services Department, Mariner House, Pepys Street, London EC3N 4DA to arrive not later than 10 a.m. on Friday, 11 May 1984. Photostat copies of Application Forms will not be accepted.

Each application must be accompanied by a separate cheque or banker's draft, which must be made payable to "Midland Bank plc" and be crossed "Not Negotiable". Cheques and banker's drafts must be drawn in sterling on a branch in England, Scotland, Wales, Northern Ireland, the Channel Islands or the Isle of Man of a bank which is either a member of the London or Scottish Clearing Houses or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided for the members of those Clearing Houses (and which must bear the appropriate sorting code number in the top right hand corner).

The right is reserved to present all cheques for payment on receipt, to retain Letters of Acceptance and surplus application money pending clearance of the successful applicants' cheques and to reject any application in whole or in part, particularly multiple or suspected multiple applications. Due completion and delivery of an Application Form accompanied by a cheque or banker's draft will constitute a warranty that the cheque or banker's draft will be honoured on first presentation; attention is drawn to the declaration in the Application Form to that effect. Applications will be irrevocable until after 16 May 1984.

No person receiving a copy of this Offer for Sale or an Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation to him, nor should he in any event use such form, unless in the relevant territory such an invitation could lawfully be made to him or such form could lawfully be used without contravention of any registration or other legal requirements. Any person outside the United Kingdom wishing to make an application hereunder should satisfy himself as to observance of the laws of any relevant territory, including obtaining any requisite governmental or other consents and observing any other requisite formalities.

Acceptance of applications will be conditional on the Council of The Stock Exchange admitting the Ordinary shares *of the Company, issued and now being issued, to the Official List not later than 16 May 1984. Monies collected in* respect of applications will be returned if such condition is not satisfied by that date and, in the meantime, will be retained by Midland Bank plc in a separate account. If any application is not accepted or is accepted for fewer shares than the number applied for, the application monies or the balance thereof, as the case may be, will be returned through the post at the risk of the applicant concerned, in all cases without interest. It is expected that Letters of Acceptance will be posted to successful applicants not later than Thursday, 17 May 1984 and that dealings in the Ordinary shares of the Company will commence on Friday, 18 May 1984.

Letters of Acceptance will be renounceable up to 3 p.m. on 12 July 1984. The shares now being offered for sale will be registered by the Company free of stamp duty in the names of the successful applicants or persons in whose favour Letters of Acceptance have been renounced, provided that, in cases of renunciation, Letters of Acceptance (duly completed in accordance with the instructions contained therein) are lodged for registration not later than 3 p.m. on 12 July 1984. Share certificates will be issued on 9 August 1984.

All documents and cheques sent by post will be sent at the risk of the persons entitled thereto.

Copies of this Offer for Sale with Application Forms may be obtained from:

Wardley London Limited, Wardley House, 7 Devonshire Square, London EC2M 4NH	W. Greenwell & Co., Bow Bells House, Bread Street, London EC4M 9EL	Midland Bank plc, Stock Exchange Services Department, Mariner House, Pepys Street, London EC3N 4DA

and from the following branches of Midland Bank plc, Clydesdale Bank PLC and Northern Bank Limited:—

London	— Poultry and Princes Street, EC2	Exeter	— 38 High Street
	— 5 Threadneedle Street, EC2	Glasgow	— St. Vincent Place
	— 133 Regent Street, W1	Jersey	— 8 Library Place, St. Helier
Belfast	— 183 Donegal Square West	Leeds	— 33 Park Row
Birmingham	— 130 New Street	Liverpool	— 4 Dale Street
Bradford	— 34 Kirkgate	Manchester	— 100 King Street
Bristol	— 49 Corn Street	Newcastle	— 42 Grey Street
Edinburgh	— 29 George Street	Southampton	— 165 High Street

THE APPLICATION LIST FOR THE ORDINARY SHARES NOW OFFERED FOR SALE WILL OPEN AT 10 A.M. ON FRIDAY, 11 MAY 1984 AND MAY BE CLOSED AT ANY TIME THEREAFTER.

This Form, duly completed, together with a sterling cheque or banker's draft for the full amount payable on application, should be forwarded to Midland Bank plc, Stock Exchange Services Department, Mariner House, Pepys Street, London EC3N 4DA to arrive not later than 10 a.m. on Friday, 11 May 1984. Photostat copies of Application Forms will not be accepted. *Each application must be accompanied by a separate cheque or banker's draft, which must be made payable to* "Midland Bank plc" and be crossed "Not Negotiable". Cheques and banker's drafts must be drawn in sterling on a branch in England, Scotland, Wales, Northern Ireland, the Channel Islands or the Isle of Man of a bank which is either a member of the London or Scottish Clearing Houses or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided for the members of those Clearing Houses (and which must bear the appropriate sorting code number in the top right hand corner). No applications can be considered unless these conditions are fulfilled. The right is reserved to present all cheques for payment *on receipt and to reject any application in whole or in part, particularly multiple or suspected multiple applications.* Applicants are strongly advised to use first class post and to allow at least 2 days for delivery.

Application Form

Comcap plc

(Incorporated in England under the Companies Acts 1948 to 1981: No. 1766985)

Offer for Sale
by
Wardley London Limited
of
5,500,000 Ordinary shares of 5p each at 120 p per share payable in full on application

Please fill in number of Ordinary shares applied for and amount of attached cheque or banker's draft	*Number of shares applied for	**Amount enclosed at 120p per share
		£

**Examples of amounts payable on application

100 shares	£120
500 "	£600
1,000 "	£1,200
2,000 "	£2,400
5,000 "	£6,000
10,000 "	£12,000
20,000 "	£24,000
50,000 "	£60,000
100,000 "	£120,000

*Applications must be for a minimum of 100 shares and thereafter for the following multiples of shares. Applications for not more than 1,000 shares, in multiples of 100 shares. Applications for over 1,000 shares and not more than 5,000 shares, in multiples of 500 shares. Applications for over 5,000 shares and not more than 20,000 shares, in multiples of 1,000 shares. Applications for over 20,000 shares and not more than 50,000 shares, in multiples of 5,000 shares. Applications for over 50,000 shares, in multiples of 10,000 shares.

FOR OFFICE USE ONLY
1 Acceptance No.
2 Shares Allocated
3 Amount Paid £
4 Amount Due £
5 Amount Returned £
6 Cheque No.
7 Split Registrations
8 Certificate Number

To: WARDLEY LONDON LIMITED

I/We enclose a cheque or banker's draft payable to Midland Bank plc for the above-mentioned sum, being the amount payable in full on application for the above stated number of Ordinary shares of 5p each of Comcap plc (the "Company") at 120p per share. I/We offer to purchase that number of shares and I/we agree to accept the same or any lesser number in respect of which this application may be accepted upon the terms of your *Offer for Sale dated 4 May 1984* and subject to the Memorandum and Articles of Association of the Company.

I/We hereby authorise you to send a renounceable Letter of Acceptance in respect of the said shares, and/or a cheque for any monies returnable, by post at my/our risk to the address given in the box below and to procure my/our name(s) to be placed on the Register of Members of the Company as holder(s) of the said shares, or of those of them which are not effectively renounced.

In consideration of your agreeing to accept applications upon the terms and subject to the conditions of the said Offer for Sale, I/we agree that this application shall be irrevocable until after 16 May 1984 and that this paragraph shall constitute a collateral contract between me/us and you which shall become binding upon receipt of this Application Form, duly completed, by Midland Bank plc.

I/We understand that due completion and delivery of this Application Form accompanied by a cheque or banker's draft will constitute a warranty that the cheque or banker's draft will be honoured on first presentation and I/we acknowledge that any allocation to me/us is strictly on that understanding.

I/We also acknowledge that Letters of Acceptance and cheques for any excess application monies are liable to be held pending clearance of applicants' cheques.

I/We warrant and represent that I/we have observed and complied with all requirements and obtained all consents required for the application to be made by any jurisdiction to which I/we may be subject.

Dated................May 1984 1. Signature ....

PLEASE PIN YOUR CHEQUE OR BANKER'S DRAFT HERE

2. Signature .... Surname and designation (Mr., Mrs., Miss or Title)
Forename(s) (in full)..............................
Address (in full)..............................

3. Signature .... Surname and designation (Mr., Mrs., Miss or Title)
Forename(s) (in full)..............................
Address (in full)..............................

4. Signature .... Surname and designation (Mr., Mrs., Miss or Title)
Forename(s) (in full)..............................
Address (in full)..............................

A corporation should sign under the hand of a duly authorised official who should state his representative capacity. If this Form is signed under a power of attorney, such power of attorney must accompany this Form. No receipt will be issued for the payment on application, but an acknowledgement will be forwarded through the post in due course, either by a fully paid Letter of Acceptance for all or some of the shares applied for or by a cheque for any surplus application money, or by the return of the application money, in each case at the risk of the applicant(s).

INSURANCE

By-laws on way for underwriting

BY JOHN MOORE, CITY CORRESPONDENT

GOVERNING authorities of the Lloyd's insurance community will introduce this month a series of by-laws setting out the requirements for the ownership and control of underwriting agents.

The by-laws will include the procedures for ensuring that the market's insurance brokers and the underwriting agents, who look after the affairs of Lloyd's underwriting members, observe the divestment requirements of the Lloyd's Act of 1982.

When Lloyd's sought legislation to overhaul the market's outdated self - regulatory mechanisms, Parliament ruled that brokers at Lloyd's should be required by law to divest themselves of their interests in the managing companies of underwriting syndicates at Lloyd's five years from the date of the legislation's enactment.

The object was to remove conflicts of interest which had been identified in the relationship between the functions of the broker buying insurance for clients, and the managing agency companies of Lloyd's insurance syndicates which sell insurance.

Mr Ian Hay Davison, chief executive of Lloyd's, told the British Insurance Brokers Association's annual conference last month that 80 per cent of the entire market capacity would be affected by the divestment programme.

It was the policy of the Lloyd's ruling council "to respect the spirit of divestment as well as the letter and to see that those conflicts of interest which Parliament has decreed as undesirable, because they produce a conflict between the underwriter's duty to his names (the members of Lloyd's) and the broker's duty to the assured, are avoided."

The effective final resolution of divestment would remove those conflicts of interest, he said.

Yet the primary legislation relating to divestment is ambiguous. For instance, the legislation does not say expressly that managing agencies should be "sold off" by the brokers. Rather, it is to be left to the Lloyd's council to prohibit a person to act as a Lloyd's broker if that person is a managing agent or associated with a managing agent.

Moreover, the legislation is not clear about the use of existing market arrangements by those that work in the market to avoid the effects of divestment.

Parliament agreed that brokers should be allowed to retain their members' agencies companies. Members' agencies introduce members to Lloyd's but do not manage insurance syndicates. Brokers, through their members agencies, are estimated to introduce about 80 per cent of the members of Lloyd's.

All members' agents at Lloyd's enter into contractual arrangements with managing agency companies to share the revenues. For example, a flat fee of 1 per cent of the Lloyd's members' premium income m.. be charged and then split 60 per cent to the managing agency and 40 per cent to the members' agency.

A profit commission of 20 per cent of the syndicate's total profit (including investment income, capital appreciation and other revenues) may be levied and then split 75 per cent in favour of the managing agency and 25 per cent to the members' agency.

Some brokers have been considering simply redrafting the agency agreement between their members' agency company and the managing agency company to minimise the effects of divestment. In this way the brokers could retain the bulk of the revenues and feel little financial impact because of the divestment proposals.

If the broker enters into a further agreement with the managing agency under which Lloyd's members introduced through the brokers' members agency have guaranteed places on the syndicates of the managing agency, the effects of divestment would be reduced further.

Lloyd's has been attempting to evolve a framework for divestment so that the spirit of the parliamentary legislation is observed in a way which does not tamper or disrupt conventional market mechanisms.

EUROPEAN OPTIONS EXCHANGE

Series		May Vol.	May Last	Aug. Vol.	Aug. Last	Nov. Vol.	Nov. Last	Stock
GOLD C	$375	3	6	13	20.10	—	—	$374.80
GOLD C	$400	2	0.80	28	8	8	16	"
GOLD C	$425	—	—	28	3	56	8	"
GOLD P	$375	478	3	421	7.50	35	9.50	"
GOLD P	$400	23	24.50	5	25	6	25	"
GOLD P	$425	—	—	—	—	6	49	"
		June		Sept.		Dec.		
SILVER C	$8	1	0.81	—	—	—	—	$8.75
SILVER C	$9	27	0.30	18	0.75	5	1.15	"
SILVER C	$10	3	0.10	—	—	—	—	"
SILVER C	$11	2	0.05	—	—	—	—	"
SILVER P	$9	24	0.40	22	0.60	—	—	"
SILVER P	$10	—	—	2	1.20	2	1.20	"
		July		Oct.		Jan.		
AKZO C	F.90	190	9.40	42	12	13	14.50	F.98
AKZO C	F.100	605	4.30	177	7.70	15	9.50	"
AKZO C	F.110	139	1.90	51	4.20	—	—	"
AKZO C	F.120	62	1	20	2.80	—	—	"
AKZO C	F.130	85	0.60	1	1.80	—	—	"
AKZO P	F.80	100	0.40	—	—	—	—	"
AKZO P	F.90	121	1.60 B	14	3.20	117	4 B	"
AKZO P	F.100	156	7	—	—	2	9.50	"
AMRO C	F.70	18	1.60	38	3.20	3	4.40	F.66.50
AMRO C	F.75	79	0.80	20	1.50	2	2.50A	"
AMRO P	F.65	55	2.50	6	3.20	19	4.50	"
GIST C	F.140	96	6.30	7	10.50	—	—	F.141.30
GIST C	F.160	58	3	32	6.30	—	—	"
GIST P	F.130	40	2.90 A	—	—	14	9.50	"
GIST P	F.140	81	6.30	—	—	—	—	"
HEIN C	F.140	115	4.60	38	7	—	—	F.142.30
HEIN P	F.120	38	1.20	—	—	—	—	"
HEIN P	F.130	5	3.50	54	5	—	—	"
HOOG C	F.48.20	33	5.20	9	7	—	—	F.50.80
HOOG C	F.53.20	143	2.50	22	4.20	—	—	"
HOOG P	F.48.20	134	1.60	—	—	—	—	"
KLM C	F.180	65	9	1	12.80	—	—	F.173.50
KLM C	F.190	41	4.90	2	9	—	—	"
KLM P	F.160	41	3.30	—	—	—	—	"
KLM P	F.180	101	11.50	1	14.60	—	—	"
NATN C	F.230	60	6.50	23	8	—	—	F.227
PHIL C	F.45	490	4.20	31	5.80	145	6.70	F.47
PHIL C	F.50	1318	1.50	428	3	211	3.80 B	"
PHIL P	F.45	415	1	43	2	82	1.90	"
PHIL P	F.50	168	3.40	20	4	47	5	"
PHO C	F.36.40	55	11.10	80	12	—	—	"
PHO C	F.40.90	166	7.10	—	—	—	—	"
PHO C	F.45.50	241	3.40	23	5	—	—	"
PHO P	F.36.40	18	0.30	84	0.60	—	—	"
PHO P	F.40.90	39	0.60	50	1	—	—	"
PHO P	F.45.50	69	1.40 A	15	2.30	—	—	"
RD C	F.130	57	30	—	—	—	—	F.160.20
RD C	F.140	76	20	21	22	12	6.50	"
RD C	F.150	154	10.50	8	13.80	—	—	"
RD C	F.160	479	5.40	29	7.80	—	—	"
RD C	F.170	374	1.80	159	4	—	—	"
RD P	F.150	160	2.50	34	5.30	—	—	"
RD P	F.160	383	7.80	19	10.20	—	—	"
UNIL C	F.280	46	3.80	25	6.90	—	—	F.264.50
UNIL C	F.300	55	1.20	—	—	—	—	"
UNIL P	F.340	43	1.60	35	3	—	—	"

TOTAL VOLUME IN CONTRACTS 16,857

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

A.B.N. Bank	8½%	■ Hill Samuel §	8½%
Allied Irish Bank	8½%	C. Hoare & Co. †	8½%
Amro Bank	8½%	Hongkong & Shanghai	8½%
Henry Ansbacher	8½%	Kingsnorth Trust Ltd.	10 %
Armco Trust Ltd.	8½%	Knowsley & Co. Ltd.	9½%
Associates Cap. Corp.	9 %	Lloyds Bank	8½%
Banco de Bilbao	8½%	Mallinhall Limited	8½%
Bank Hapoalim BM	8½%	Edward Manson & Co.	9½%
BCCI	8½%	Meghraj and Sons Ltd.	8½%
Bank of Ireland	8½%	Midland Bank	8½%
Bank of Cyprus	8½%	■ Morgan Grenfell	8½%
Bank of India	8½%	National Bk. of Kuwait	8½%
Bank of Scotland	8½%	National Girobank	8½%
Banque Belge Ltd.	8½%	National Westminster	8½%
Barclays Bank	8½%	Norwich Gen. Tst.	8½%
Beneficial Trust Ltd.	9½%	People's Tst. & Sv. Ltd.	9½%
Bremar Holdings Ltd.	8½%	R. Raphael & Sons	8½%
Brit. Bank of Mid. East	8½%	P. S. Refson & Co.	8½%
■ Brown Shipley	8½%	Roxburghe Guarantee	9½%
CL Bank Nederland	8½%	Royal Trust Co. Canada	8½%
Canada Perm't Trust	8½%	■ J Henry Schroder Wagg	8½%
Castle Court Trust Ltd.	9 %	Standard Chartered ‖	8½%
Cayzer Ltd.	8½%	Trade Dev. Bank	8½%
Cedar Holdings	9 %	TCB	8½%
■ Charterhouse Japhet	8½%	Trustee Savings Bank	8½%
Choulartons	10½%	United Bank of Kuwait	8½%
Citibank Savings ¶	9½%	United Mizrahi Bank	8½%
Clydesdale Bank	8½%	Volkskas Limited	8½%
C. E. Coates	9½%	Westpac Banking Corp	8½%
Comm. Bk. of N. East	8½%	Whiteaway Laidlaw	9 %
Consolidated Credits	8½%	Williams & Glyn's	8½%
Co-operative Bank *	8½%	Wintrust Secs. Ltd.	8½%
The Cyprus Popular Bk.	8½%	Yorkshire Bank	8½%
Dunbar & Co. Ltd.	8½%		
Duncan Lawrie	8½%		
E. T. Trust	9 %		
Exeter Trust Ltd.	9½%		
First Nat. Fin. Corp.	11 %		
First Nat. Secs. Ltd.	9½%		
Robert Fraser	9½%		
Grindlays Bank ‡	8½%		
■ Guinness Mahon	8½%		
■ Hambros Bank	8½%		
Heritable & Gen. Trust	8½%		

■ Members of the Accepting Houses Committee.
* 7-day deposits 5.25%. 1-month 5¾%. Fixed rate 12 months £2,500 8%. £10,000, 12 months 8.25%.
† 7-day deposits on sums of: under £10,000 5½%, £10,000 up to £50,000 6¼%, £50,000 and over 7¼%.
‡ Call deposits £1,000 and over 5¼%.
‖ 21-day deposits over £1,000 6¼%.
§ Demand deposits 5¼%.
¶ Mortgage base rate.

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
20¼	13⅜	AAR	.44	2.2	21	1012	20⅛	19¾	20⅛	
51	31½	ACF	1.40	2.7	59	30	52¼	52¼	52¼	
22	15½	AMCA	n 1	5.6		1	18	18	18	
18⅝	13⅜	AMF	.50	2.9		x4163	17½	16⅝	17¼	+ ⅝
50⅝	49⅝	AMF	pf1.75e	3.4		10	u51	51	51	+ ⅜
41¼	26	AMR Cp			7	3061	34⅛	33½	34⅛	
20⅛	17½	AMR	pf2.18	11		72	20	19⅞	19⅞	- ⅛
41½	29⅝	AMR	pf2.13	6.0		52	35⅝	35⅜	35⅜	- ⅜
26⅜	23	ANR	pf2.67	11.		50	23¼	23¼	23¼	
16⅞	7	APL			4	50	13⅜	13⅜	13⅜	
55¼	40⅜	ARA	2.10	4.6	9	2267	45⅝	44	45¼	+ ¼
77¼	50⅜	ASA	3a	4.8		z678	64⅜	61⅞	62	-1⅜
33¼	17	AVX	s .32	1.5	16	93	21½	21¼	21⅜	- ¼
53⅜	38⅜	AbtLab	1.20	2.8	15	753	43½	42⅝	43½	+ ¼
30¼	23¼	AccoWd	.60	2.2	18	116	27¼	27	27	- ½
37½	20	AcmeC	.40	1.9		37	21⅜	21¼	21¼	- ⅜
13	8⅝	AcmeE	.32b	3.2	27	10	9⅞	9⅞	9⅞	+ ⅛
24⅝	12⅝	AdmDg	.04	.3	8	17	14	13⅞	14	
18⅛	15⅜	AdaEx	2.11e	13.		98	16⅛	15⅞	15⅞	
19¼	11	AdmMl	.28	1.7	8	6	16⅝	16½	16⅝	- ⅛
22	14½	AdvSys	.811	4.9	16	46	16¾	16½	16½	- ¼
18½	8⅝	Advest	.12	1.2	12	27	9⅞	9⅝	9⅞	
37½	21¼	AMD	s		26	3242	32⅜	31¼	32⅛	- ⅛
24⅝	11⅞	Aerfb	s		12	39	12⅜	12⅛	12⅜	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 35

AMERICAN STOCK EXCHANGE COMPOSITE CLOSING PRICES

Continued on Page 36

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Continued from Page 34

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a–dividend also extra(s). b–annual rate of dividend plus stock dividend. c–liquidating dividend. cld–called. d–new yearly low. e–dividend declared or paid in preceding 12 months. g–dividend in Canadian funds, subject to 15% non-residence tax. i–dividend declared after split-up or stock dividend. j–dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k–dividend declared or paid this year, an accumulative issue with dividends in arrears. n–new issue in the past 52 weeks. The high-low range begins with the start of trading. nd–next day delivery. P/E–price-earnings ratio. r–dividend declared or paid in preceding 12 months, plus stock dividend. s–stock split. Dividends begins with date of split. sls–sales. t–dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u–new yearly high. v–trading halted. vi–in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd–when distributed. wi–when issued. ww–with warrants. x–ex-dividend or ex-rights. xdis–ex-distribution. xw–without warrants. y–ex-dividend and sales in full. yld–yield. z–sales in full.

WORLD STOCK MARKETS

OVER-THE-COUNTER

Nasdaq national market, 3pm prices

[illegible]

Continued on Page 37

AMERICAN STOCK EXCHANGE

Continued from Page 35

[illegible]

AUSTRIA

May. 7	Price Sch%	+ or —
Creditanstalt	213	.....
Goesser	328	+1
Interunfall	407	..
Laenderbank	205	+1
Perlmooser	360	+2
Steyr-Dimler a	149	-1
Veitscher Mag	217	-1

BELGIUM/LUXEMBOURG

May 7	Price Frs.	+ or —
ARBED	1,795	-35
Banq Int A Lux	5,000	....
Bekaert B	4,200	+100
Ciment CBR	2,350	....
Cockerill	319	+3
Delhaize	4,800	-150
EBES	2,795	-15
Electrobel	6,850	-110
Fabrique Nat	2,170	-10
GB Inno BM	3,305	+10
GSL Brux	2,300	-25
Gevaert	3,300	+55
Hoboken	5,460	-10
Intercom	2,105	+5
Kredietbank	7,120	-70
Pan Hldgs.	9,890	....
Petrofina	8,000	+10
Royale Belge	9,150	....
Soc. Gen. Banq	3,200	-5
Soc. Gen. Belge	1,915	-10
Sofina	6,840	-300
Solvay	4,150	-5
Tractionel	3,830	-15
UCB	5,240	-50
Vieille Mont	4,250	+70

DENMARK

May 7	Price Knr %	+ or —
Aarhus Olie	410	....
Andelsbanken	255	..
Baltic Skand	705	-35
CopHandelsbank	242	-12
D. Sukkerfab	670	-25
Danske Bank	242	-11
[illegible]	[illegible]	[illegible]

FRANCE

May 7	Price Frs.	+ or —
[illegible]	[illegible]	[illegible]
BIC	448	[illegible]
Bouygues	723	-24
BSN Gervais	2,765	-25
CIT-Alcatel	1,370	-16
Carrefour	1,815	-25
Club Mediter'n	926	+7
CFAO	715	-5
Cie Bancaire	520	-5
Cofimeg	229	+5.5
Creusot Loire	31.1	-1.4
Darty	968	-7
Dumez S.A.	740	-3
Eaux (Cie Gen)	580	-10
Elf-Aquitaine	272.1	+0.6
Gen. Occidentale	656	+15
Imetal	97	+3
Lafarge Coppee	390	+3.6
L'Oreal	2,504	-41
Legrand	1,981	-34
Maisons Phenix	250	....
Matra S.A	1,515	-5
Michelin B	842	-8
Midi (Cie)	1,610	-29
Moet-Hennessy	1,650	-9
Moulinex	103.3	-0.7
Nord Est	50	-1
Pernod Ricard	790	-5
Perrier	542	-8
Petroles Fra.	298	+17
Peugeot S.A	254	+3
Poclain	45.7	....
Printemps Au	165	-2
Radiotech	320	+5
Redoute	1,230	-60
Roussel-Uclaf	1,116	-24
Schneider S.A.	100	-2.5
Sefimeg	265	+4.2
Skis Rossignol	1,413	....
Telemech Elect.	1,740	-22
Thompson (CSF)	305	-5
Valeo	375	-1

GERMANY

May 7	Price Dm.	+ or —
AEG-Telef	98.6	-1.4
Allianz Vers	789	-4
BASF	167.4	-2.6
Bayer	172.3	-3.6
Bayer-Hypo	298	-4.5
Bayer-Verein	331.5	-18.5
BHF-Bank	281	-4
BMW	395	-9
Brown Boveri	216	-2.5
Commerzbank	174	-4
Cont'l. Gummi.	129	-3
Daimler-Benz	583.5	-3.5
Degussa	365 xd	-37
Demag	146	....
D'sche Babcock	159	-4
Deutsche Bank	347.2xd	-6.3
Dresdner Bankk.	173	-4.5
GHH	147.1	-2.9
Hochtief	528	+3
Hoechst	182	-4.5
Hoesch Werke	115	-2
Holzmann (P)	425	....
Horten	196	-1.5
Kali und Salz	193	-6
Karstadt	269.2	-5.8
Kaufhof	248	-3.5
KHD	251	-4.2
Kloeckner	59.8	-2.2
Krupp	76	-1.5
Linde	391	-1
Lufthansa	152	-4
MAN	146	-6
Mannesmann	149.6	-2.1
Mercedes Hld.	504	-2
Metallgesell	240	-2
Muench Rueck	1,145	+15
Preussag	274	-3.5
Rhein West Elect.	163.1	-1.1
Rosenthal	230	+0.5
Schering	346	-6
Siemens	399.5	-5.2
Thyssen	84.2	-2
Varta	169	-3.5
Veba	170	-2
V.E.W	121.3	-0.2
Verein-West	300	-1
Volkswagen	198.5	-4.3

ITALY

May 7	Price Lire	+ or —
[illegible]	[illegible]	[illegible]

NETHERLANDS

May 7	Price Fls	+ or —
ACF Holding	185	-2
AEGON	129.5	-1
Ahold	190	-1
AKZO	95	-0.4
ABN	369.5	+2.5
AMEV	152.8	-0.7
AMRO	66.5	+1
Bredero Cert	207	-0.5
Bos Kalis Westm.	32.4	+0.4
Buehrmann-Tet.	73	....
Calland Hldgs.	36.7	+0.2
Credit Lyon'is Bk	57.9	....
Elsevier-NDU	88.8	-0.5
Gist. Brocades	141.5	+0.1
Heineken	132.3	-1.4
Hoogovens	50.8	-0.4
Hunter Douglas	26.3	-0.4
Int Mueller	38.8	+1
KLM	173.5	-1.6
Naraden	41	-0.2
Nat Ned Cert	227	+1.2
Ned. Credit Bank	40	....
Ned Mid Bank	146	....
Nedlloyd	123.5	-0.3
Oce Grinten	244	....
Ommeren (Van.)	30.5	-0.1
Pakhoed	63.6	-0.7
Philips	47.1	+0.4
Rijn-Schelde	3	-0.1
Robeco	66.1	-0.2
Rodamco	135.6	+0.1
Rolinco	64.2	....
Rorento	202.9	-0.6
Royal Dutch	160.2	+1.8
Unilever	264.5	....
VMF Stork	112	+0.[illegible]
VNU	154.5	-3
West Utr Bank	92.5	-0.5

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

NORWAY

May. 7	Price Kroner	+ or —
Bergen Bank	184	+1.5
Borregaard	335	+5
Christiania Bk.	180	+4
Den Norsk Credit	162.5	+4
Elkem	167.5	-2.5
Norsk Data	320	-6
Norsk Hydro	847.5	+0.5
Storebrand	260	+13

SPAIN

May. 4	Price Pts%	+ or —
Bco Bilbao	314	+2
Bco Central	321	+2
Bco Exterior	207	+1
Bco Hispano	239	-1
Bco Santander	300	.....
Bco Vizcaya	377	.
Dragados	149	-1
Hidrola	48.5	-0.5
Iberduero	57.2	-0.3
Petroleos	116	-1.7
Telefonica	84.2	+0.2

SWEDEN

May 7	Price Kronor	+ or —
AGA	370	-1
Alfa-Laval	385	+3
ASEA (Free)	380	-3
Astra (Free)	520	+5
Atlas Copco	129	....
Boliden	446	-3
Cardo (Free)	411	-4
Cellulosa	162	-1
Electrolux B	278	-1
Ericsson	327	-1
Esselte	335	-5
Mo Och Domsjo	575	-15
Pharmacia	271	-4
Saab-Scania	420	-5
Sandvik	400	....
Skandia	385	-5
Skan Enskilda	345	-3
SKF	217	-6
St. Kopparbergs.	765	+15
[illegible]	[illegible]	[illegible]

SWITZERLAND

May 7	Price Frs.	+ or —
[illegible]	[illegible]	[illegible]
Landis & Gyr	1,415	-25
Nestle	5,475	-25
Oer-Buehrle	1,245	-30
Pirelli	252	....
Sandoz (Br)	5,790	....
Sandoz (PtCts)	1,040	+5
Schindler (PtCts)	580	+5
Swissair	1,015	-16
Swiss Bank	350	-6
Swiss Reinsce	8,200	-100
Swiss Volksbk	1,450	-30
Union Bank	3,605	-35
Winterthur	3,050	....
Zurich Ins	18,400	+200

AUSTRALIA

May. 7	Price Aust $	+ or —
ANZ Group	5.74	-0.04
Acrow Aust	1.6	....
Alliance Oil D.	0.75	-0.01
Ampol Pet	1.75	-0.03
Aust Cons Ind	1.86	-0.01
Aust. Guarant	2.8	....
Aust. Nat. Inds	2.69	-0.03
Aust. Paper	2.05	.....
Bell Group	8.54	-0.1
Bond Corp Hldgs	1.30	.....
Boral	3.6	-0.05
B'ville Copper	2.45	-0.05
Brambles Inds	2.95	-0.07
Bridge Oil	2.85	-0.1
BHP	11.3 xa	-0.25
CRA	6.94	-0.14
CSR	3.72	-0.08
Carlton Utd	4.15	....
Castlemaine Tys.	4.55	....
Coles (G.J.)	3.85	+0.05
Comalco "A"	3.05	.....
Consolidated Pet	0.72	-0.05
Costain Aust	1.35	....
Dunlop Aust	1.7	-0.02
E.Z. Inds	5.4	+0.02
Elders IXL	4.03	.....
Energy Res	1.42	-0.05

AUSTRALIA (continued)

May. 7	Price Aust. $	+ or —
Gen Prop Trust	2.12	+0.02
Hardie (J.)	3.36	-0.02
Hartogen Energy	2.85	-0.05
HeraldW'y Times	3.4	-0.1
ICI Aust	2.12	-0.05
Jimb'lana 50cFP	0.29	.....
Kia Ora Gold	0.16	...
Lend Lease	4.92	-0.05
MIM	3.4	-0.08
Mayne Nickless	2.4	-0.1
Meekatharra	0.76	.....
Myer Emp.	1.91	-0.01
Nat. Com. Bk.	5.56	-0.04
News	11	....
Nicholas Kiwi	2.8	....
North Bkn Hill	2.85	-0.1
Oakbridge	0.94	....
Otter Expl.	0.57	+0.02
Pancont'l	1.45	-0.02
Pioneer Conc	1.58	-0.05
Reckitt & Coln	2.6	....
Repco	1.2	.....
Santos	6.7	-0.14
Smith (H.)	3.85	-0.1
Southland Min'g.	0.39	....
Spargos Expl	0.35	....
Thos. Natwide	1.94	-0.01
Tooth	5.2	-0.1
Vamgas	3.35	-0.1
Western Mining	4.12	-0.05
Westpac	3.87	+0.02
Woodside Petrol.	1.28	-0.01
Woolworths	2.35	-0.01
Wormald Intl	3.2	.....

HONG KONG

May. 7	Price H.K.$	+ or —
Bank East Asia	22	-1.3
Cheung Kong	8.45	-0.3
China Light	10.8	-0.9
Hang Lung Devel	2.45	-0.32
Hang Seng Bank	35.5	-2.5
HK Electric	5.35	-0.35
HK Kowloon Wh.	3.6	-0.25
HK Land	3.07	-0.18
HK Shanghai Bk.	6.5	-0.35
HK Telephone	43.5	.....
Hutchison Wpa.	15.3	-0.9
[illegible]	[illegible]	[illegible]

JAPAN

May. 7	Price Yen	+ or —
[illegible]	[illegible]	[illegible]
Casio Comp.	1,310	-30
Chugai Pharm	1,040	-10
Citizen	580	-5
Daiei	685	-7
Dai Nippon Ptg	1,100	.....
Daiwa House	485	+12
Ebara	325	.....
Eisai	1,040	-90
Fanuc	9,360	-130
Fuji Bank	1,050	+10
Fuji Film	1,750	-30
Fujisawa	793	-1
Fujitsu	1,320	....
Green Cross	1,920	+40
Hasegawa	380	+7
Heiwa Real Est.	616	.....
Hitachi	952	-7
Hitachi Credit	1,750	+70
Honda	1,260	+20
House Food	773	-2
Hoya	2,050	-30
Itoh (C)	325	-15
Ito Yokado	2,060	-20
Iwatsu	1,790	-30
JACCS	580	-5
JAL	2,880	+60
Jusco	816	+6
Kajima	298	+3
Kao Soap	820	-9
Kashiyama	625	-10
Kirin	623	-1
Kokuyo	1,090	-[illegible]
Komatsu	503	....
Konishiroku	624	-5
Kubota	320	+5
Kumagai	468	-2
Kyoto Ceramic	6,180	-30
Maeda Const.	526	+9
Makino Milling	1,450	-30
Makita	1,130	....
Marubeni	366	-13
Marudai	650	-5
Marui	1,310	+10
MEI	1,980	-20
M'ta Elec Works.	773	-8
M'bishi Bank	1,040	....
M'bishi Corp.	550	-5
M'bishi Elec	440	-5
M'bishi Estate	559	....

JAPAN (continued)

May. 7	Price Yen	+ or —
MHI	265	.....
Mitsui Co	377	....
Mitsui Estate	760	-12
Mitsukoshi	341	+2
NGK Insulators	824	-1
Nihon Cement	226	-2
Nippon Denso	1,630	+20
Nippon Elect	1,860	-20
Nippon Express	326	-2
Nippon Gakki	530	+4
Nippon Kokan	159	+2
Nippon Oil	1,210	+20
Nippon Seiko	628	+5
Nippon Shimpan	636	+1
Nippon Steel	185	.....
Nippon Suisan	342	-1
NTV	13,300	-200
Nippon Yusen	250	+6
Nissan Motor	656	....
Nisshin Flour	437	+1
Nisshin Steel	227	-5
Nomura	886	+6
Olympus	885	-15
Omron Tateisi	2,340	-70
Orient Leasing	4,040	+10
Pioneer	2,650	-50
Renown	690	....
Ricoh	1,080	-40
Sankyo	701	-5
Sanyo Elect.	528	-2
Sapporo	460	+10
Sekisui Prefab	580	-4
Seven Eleven	9,000	+100
Sharp	1,190	-50
Shimadzu	607	+2
Shionogi	514	+6
Shiseido	1,220	+10
Sony	3,580	-40
Stanley	303	-5
S'tmo Bank	1,200	+50
S'tomo Elect.	919	-8
S'tomo Marine	514	+7
S'tomo Metal	198	+4
Taihei Dengyo	491	-2
Taisei Corp	218	+1
Taisho Pharm.	1,020	+50
Takeda	707	-3
TDK	5,630	-70
Teijin	450	-2
Teikoku Oil	752	+22
Tokyo Marine	668	-15
TBS	899	+1
Tokyo Elect Pwr.	1,340	-20
Tokyo Gas	178	....
Tokyo Sanyo	834	+6
Tokyo Style	760	......
Tokyu Corp	324	-4
Toppan Print	825	-5
Toray	483	....
Toshiba Elect.	444	-1
TOTO	649	-17
Toyo Seikan	820	-10
Toyota Motor	1,460	....
Victor	2,920	....
Wacoal	810	-10
Yamaha	518	-7
Yamanouchi	1,350	....
Yamazaki	740	....
Yasuda Fire	360	+4
Yokogawa Bdge.	425	+10

SINGAPORE

May. 7	Price $	+ or —
Boustead Hldgs.	2.58	+0.01
Cold Storage	3.86	-0.02
DBS	9.75	-0.08
Fraser & Neave	6.1	....
Genting	6.3	....
Haw Par. Bros	2.55	-0.04
Inchcape Bhd.	2.92	-0.02
Keppel Shipyard	3.0	-0.04
Malay Banking	9.9	-0.05
Malay Brew	6.75	-0.05
Multi Purpose	1.9	+0.02
OCBC	10.4	......
OUB	4.36	....
Sime Darby	2.41	-0.05
Straits St'mship.	1.53	-0.02
Straits Trdg.	5.75	......
UOB	5.55	+0.05

SOUTH AFRICA

May. 7	Price Rand	+ or —
Abercom	2.25	....
AE & CI	9.6	+0.1
Anglo Am Coal	31.5	....
Anglo Am Corp	23.85	-0.35
Anglo Am Gold	152	....
Barclays Bank	22.85	....
Barlow Rand	14.5	.....
Buffels	79.75	-2.25
CNA Gallo	3.45	+0.05
Currie Finance	5.5	....
De Beers	9.37	-0.25
Driefontein	45.65	-0.85
FS Geduld	49.75	-1.75
Gold Fields S.A.	29.5	-0.5
Highveld Steel	6	.....
Nedbank	16.4	-0.2
OK Bazaars	18.6	-0.25
Protea Hldgs.	3	......
Rembrandt	27	......
Rennies	14.7	.....
Rust. Plat	15.05	-0.15
Sage Hldgs.	8.25	....
SA Brews	7.65	.....
Smith (C.G)	26.25	-0.5
Tongaat Huletts	12	....
Unisec	5.6	.....

TORONTO

Prices at 2.30 pm

May 7

902	Abti Prce	$26½	26½	26½	+¼
750	Agnico E	$17¾	17¼	17¼	-⅛
11975	Air Energy	322	27⅞	27⅞	-¼
100	Alta Nat	$32½	32½	32½	+⅛
1000	Algo Cent	$19½	19¼	19¼	
301	Algoma St	$24⅛	24⅛	24⅛	
12750	Alco I f	$6	5⅞	6	
[illegible]					
2300	Conventrs	385	385	385	-5
500	Conwest A	$9⅞	9⅞	9⅞	+⅛
500	Coseka R	385	375	375	-5
1000	Canron A	$13	13	13	
52180	Crownx	$15⅞	15½	15⅝	
9600	Czar Res	185	181	185	+4
3850	Daon Dev	157	156	156	-4
1889	Denison A	$18	17¼	17¼	-¼
2108	Denison B f	$16⅞	16½	16⅞	
7700	Develcon	$10	9⅞	9⅞	
700	Dickson A f	$6⅛	6⅛	6⅛	-⅛
100	Dickson B	$6½	6½	6½	
5000	Doman A	285	270	270	-5
[illegible]					
570	Inland Gas	$14⅝	14⅝	14⅝	-¼
3850	Intpr Pipe	$26	25¾	25¾	-¼
150	Jannock	$12¾	12¾	12¾	+⅛
100	Kam Kotia	143	143	143	+11
1000	Kelsey H	$27	27	27	+½
218	Kerr Add	$18	17⅞	17⅞	+⅛
3450	Labatt	$18¼	18	18	-⅛
2335	Lac Mnrls	$32⅞	32⅞	32¼	-⅛
100	LOnt Cem	$8¼	8¼	8¼	
4100	Lacana	$14	13¾	13¾	-⅛
20	LL Lac	$37⅛	37⅛	37⅛	+⅛
690	Loblaw Co	$14⅛	14¼	14⅛	
400	MICC	415	415	415	
[illegible]					
900	Roman	$14¾	14¾	14¾	-½
10630	Sceptre	$6¼	6⅛	6¼	
16229	Shell Can	$26	25½	25⅞	+½
18256	Sherritt	$8	7⅞	8	-¼
4607	SSears A f	$8⅛	7⅞	8	+⅛
250	Southm	$49⅞	49½	49⅞	+⅛
9315	Stelco A	$25¼	24⅞	24⅞	-½
1000	Steep R	430	420	420	-5
2100	Sulpetro B f	$5⅞	5⅞	5⅞	-⅛
100	Suncor pr	$24¼	24¼	24¼	+¼
125	Sydney o	105	105	105	-4
200	Tara o	$18	18	18	+¼
1100	Teck Cor A	$10⅞	10⅞	10⅞	-⅛
[illegible]					

Indices

NEW YORK—DOW JONES

[illegible]

New York Active Stocks

[illegible]

[illegible]

CONSTRUCTION CONTRACTS

£11m City work for Trollope and Colls

TROLLOPE AND COLLS has been awarded an £11m contract for the reconstruction of 4-5 King William Street in the City of London. The contract, for Phoenix Assurance, calls for partial demolition of the existing building to be replaced by new offices and the refurbishment of retained offices. Altogether there will be 8,000 sq metres of air conditioned office accommodation on seven floors including a mezzanine and three basement levels. Construction will consist mainly of reinforced concrete but with a structural steel frame adjacent to the "listed" areas. Completion of the project is scheduled for 1986.

Jno Croad, a part of Trollope and Colls, has been awarded three contracts worth £2.6m, ranging from major school extensions in Gosport to offices in Camberley for the Norwich Union. The largest contract at over £1m is for the Hampshire County Council for the Bridgemary Community School extensions in Gosport. Croad will build a sports hall and make extensive alterations and additions to existing school buildings. The project is due for completion in August 1985.

★

JOHN WILLMOTT (WEST LONDON), a subsidiary of the John Willmott Group, has been awarded a contract in the region of £166,000 by Sun Alliance and London Assurance Co. for the construction of a shop unit with two floors of offices above at 15-17 High Street, Uxbridge.

★

WALTER LAWRENCE (CITY) has started repairing roofs on 17 blocks of low-rise flats at Teviot Street, E14, for the London Borough of Tower Hamlets at a cost of £230,259. The contract will take six months.

★

CRITTALL WINDOWS has produced steel and aluminium windows for 659 houses owned by Ipswich Borough Council. This order was worth nearly £500,000. A complex of 10 blocks of flats, built in the 1960s, in Bullsmoor Way, Enfield, is having all its badly deteriorated wooden windows replaced by aluminium frames. The contract, awarded by the London Borough of Enfield, is worth not far short of £500,000. In Scotland, Crittall Warmlife supplied secondary glazing for noise insulation on 152 properties close to Aberdeen Airport. The value of the order, from the City of Aberdeen District Council, was £90,000. Crittall is a Norcros company.

★

WARD CONSTRUCTION (EPPING) has won a £1.06m contract to modernise a pre-war block of 30 flats in Poplar, East London. The contract awarded by the Oxford House Housing Association will provide housing for letting to 65 people in Docklands.

★

MACJORDAN, Southam, has won contracts worth £1.3m. These include school extensions, new factories and fitting out work. Largest is at Greville High School, Alcester, for major alterations and extensions for Warwickshire County Council, worth £849,000. The new industrial units are situated at Bicester and Hinckley.

★

J. and J. FEE has started work on phase one of a £6m factory and office complex at Euroway Industrial Estate, Bradford, for the Spring Ram Corporation. There will be a 120,000 sq ft factory and 8,000 sq ft offices.

★

MIDLAND OAK has secured a contract worth £232,000 for construction of site development works at Willen, Milton Keynes, for the Development Corporation. Completion is scheduled within 18 weeks.

★

BALFOUR BEATTY is building a two-storey factory worth £1.2m at Ashby de la Zouch, Leicestershire, for the energy division of Transmitton. Both companies belong to the BICC Group. Some 2,200 sq metres of fully carpeted office and test area will be available during the summer and the space vacated in one of two other buildings on the site will be occupied by the company's industrial division. The architects, Percy Thomas Partnership, intend to provide a striking contrast to the existing two buildings on the site by using an off-white, high insulation cladding. Centralised computer controls will include Transmitton's LX20 full lighting control system as well as providing comprehensive site energy management via its micropower 100 system.

★

PRESS CONSTRUCTION has a job at BSC's Port Talbot steelworks, to construct piping for the descaling and roll-coolant systems in the hot mill. Valued at over £500,000, the project forms part of phase two in the current hot-mill development programme.

★

TAYWOOD-SANTA FE (TSL), of Greenford, Middlesex, has been awarded a Spanish design project. The contract is for Spain's state-owned Empresa Nacional de Investigacion y Explotacion de Petroleo, for the Gaviota gas field, seven miles off the Basque coast in the Bay of Biscay. TSL's contract with CA Babcock and Wilcox Espanola, of Bilbao, includes a conceptual design review followed by detailed design of drilling facilities, as well as project support services during procurement and fabrication of the modules.

R. M. Douglas has £7m jobs

Contracts awarded to R. M. DOUGLAS CONSTRUCTION for building and civil engineering work in the UK amount to £7.05m. The north west region has work worth £2.59m, of which £2.25m relates to the construction and fitting out of a 6,750 sq metre warehouse extension that is to be occupied by Marks and Spencer. The construction phase, worth £1m, is for Warrington New Town Development Corporation. When the shell is completed in November Douglas will commence the six month, £1.25m fitting contract which involves the installation of shelving, partitioning, etc. Other work in the area includes the construction of a £260,000 single storey factory at Runcorn for Sandon Flexographic Printing Rollers and heavy foundations for a pickling line at Shotton for BSC.

In the West Midlands the largest job is a £1.61m contract for widening the M5 motorway between junctions three and four at Quinton and Lydiate Ash respectively. Work includes widening and reconstruction in two sections with both partial and total reconstruction work on both carriageways and hard shoulders.

Other West Midlands contracts include a £365,000 two-storey workshop and office at Towcester for Plessey Properties. A telecommunications building at Bescot Sidings for Cable and Wireless acting on behalf of Mercury Communications is to be built under a £162,000 contract. Smaller works at Kings Heath and at Aston Science Park for the City of Birmingham District Council, bring the total to £2.21m.

A further £1.8m in the East Midlands comprises two contracts at Corby. One is for a £1.27m single-storey cube sugar factory with two-storey offices totalling 5,180 sq metres for Eurosugar (UK). The other, valued at £325,000, is a coating plant for Pilkington Glass. In the north east, a centre for the disabled is to be built under a £570,000 contract for Newcastle upon Tyne council for the disabled. Factory alterations for the Derwent Valley Foods at Consett bring the total to £620,000.

Over The Counter

Continued from Page 36

Stock		Sales (Hnds)	High	Low	Last	Chng
RedknL	.52	14	29¾	29¼	29¼	-½
Reeves		37	8¼	7¼	7¼	-¼
RgcyE s	.20	x231	8	7¼	8	
Regis	15	51	30	29½	30	+¼
Rehab		46	15¼	15	15¼	+¼
Relab		35	10⅛	9⅞	9⅞	
RpAuto	.44	130	7¼	7⅞	7⅞	-⅛
RpHlth		13	13¼	13	13	-⅛
Reuter		81	11½	11⅛	11½	+⅛
Rexon		244	9½	9¼	9¼	-¼
Rbilm		8	7⅞	7⅞	7⅞	+⅛
Rrizys s		59	6	5¾	6	
Rival	.80	23	11¼	10⅞	11⅛	-⅛
RoadS	2	309	54¼	54	54¼	+¼
Rockcor		183	11⅛	10⅞	11	+⅛
Rouse	.92	61	34	33⅝	33⅝	-⅛
RoyBGp		10	5⅛	5⅞	5⅛	-⅛
RoylRsc		59	9⅛	8⅞	8⅞	-¼
RyanFa		86	18	17½	17½	-¼
S—S						
SCI Sy s		676	18¼	17½	18	+¼
SEI		66	14¼	14¼	14¼	-¼
SRI s	.68	22	16½	16½	16¼	-¼
Safecrd		46	7⅛	7⅛	7½	
Safeco	2.60	2994	66¼	65⅝	66⅛	+⅛
StJude		162	15¼	15½	15½	-⅛
StPaul	3	305	61⅝	61¼	61⅝	-⅛
SalCpt		138	3¼	3½	3¼	+⅛
SenBar		6	5½	5½	5½	-½
Satelco		20	2¼	2	2¼	+¼
SavnhF	.60e	9	38¼	37⅛	38¼	+¼
SvBkPS	.72	9	19⅜	19⅝	19⅝	-¼
ScanOp		72	10½	10⅞	10⅞	
ScanTr		85	13¼	12¼	13	+¼
Scherer	.32	47	12⅛	12⅛	12⅛	
Scimed		8	10⅞	10⅞	10⅞	-¼
ScSft		44	19¼	18½	19¼	+¼
ScSySv		107	6½	6¼	6¼	-¼
Scitex		289	19¾	18¾	19½	-¼
SeaGal		166	8⅞	8⅝	8⅞	+¼
Seagte s		1336	13	12⅛	12⅞	+⅛
SecTag		20	5¼	4⅞	5¼	+¼
Seibel	.80	35	21¼	21⅞	21½	-¼
Semicn		20	10¼	10¼	10¼	-¼
Sensor s	.05	1811	10	9⅛	9⅝	+⅛
SvcMer	.08	522	14½	14	14⅛	-⅛
Svmst s	1.04	133	29¼	28½	29	-¼
SvcFrct		21	10¼	10	10	
SevOak	.15	58	15¼	15	15	-¼
ShrMed	.40	214	29¼	28⅞	28⅞	-1
Shelchl		6	16	16	16	-¼
Shoney	.16	37	22⅝	22¼	22⅝	+⅛
ShonSth		50	13⅞	13⅞	13⅞	-⅛
SiliconG s		154	13¼	13¼	13½	+⅛
SiliconS		126	22	21⅞	21⅞	+⅛
SilicVal		7	22	21½	22	+¼
Silicnx s		49	14¼	14	14	+¼
Sltec		50	9½	9	9¼	
Simpln	.80	67	14½	14½	14½	+¼
SippOcn		105	13¼	12⅞	13¼	-⅛
SixCp		4	7	7	7	
Sizzler s		21	12	11¼	12	
Skipper	.06	37	11	10¼	10¼	-⅛
SloanTc		13	4½	4½	4½	-½
SmithL		633	8¼	7⅞	8¼	+⅛
Society	1.70	416	31¼	30	30¼	+½
Softch s		425	8¼	7½	8	+⅛
SoonrFd		96	28½	28½	28½	-½
Sovrgn	.10	715	7	6⅝	7	-¼
Sovran	1.50	38	31¼	30¼	30¼	-⅛
SpcMic		43	3¼	3⅛	3¼	-⅛
SpanA		12	5	5	5	
Spacd s		2	10¼	10¼	10¼	
SpecCtl	.05	11	7½	7¼	7¼	
StatBld	.20	31	9⅛	9⅛	9⅛	-⅛
Standyn	1.80	5	49¼	49	49¼	+1
StdMic s		70	20⅛	20⅛	20⅛	+¼
Standn s		1	8	8	8	
StaleGp	.15b	39	7⅞	7⅞	7⅞	-⅛
Steiger		55	9¼	9⅛	9⅛	-⅛
StemrL		6	4⅛	4	4⅛	+⅛
StewStv		5	13¼	13⅛	13⅛	-⅛
Stratus		32	11¼	11¼	11¼	+¼
StrawCl	.80b	108	70¼	70	70¼	-¼
Stryker		42	23½	22¼	23½	-¼
StuartH	.05	14	8	5¼	6	+¼
Subaru	1.24	213	80¼	80	80¼	-¼
Summa		47	4⅞	4⅞	4⅞	-¼
SumtHl	.02a	120	6½	6⅞	6¼	+⅛
SunrSL s		632	20⅛	19½	19⅞	-1
SupSky		5	9¼	9¼	9¼	+¼
Swmtn s		142	7½	7⅛	7¼	+⅛
Sykes		393	3⅝	3⅛	3½	-⅛
SymbT		145	10¼	10⅛	10⅛	-⅛
Syncor		9	6⅛	6⅛	6⅛	
Syntech		52	9	8⅞	8⅞	-½
Syntrex		229	7¼	7	7¼	
Syscon	.24	58	14¼	14	14¼	
SyAsoc		109	15¼	15¼	15¼	+¼
Systin		11	9	9	9	-¼
Systmg		31	10	9½	10	
SystGn s		30	8½	8⅛	8½	-¼
Systmt s	.01l	2	16¼	16¼	16¼	
SCT Cp		99	25¼	25	25¼	-¼
T—T						
TBC		13	10½	10	10½	
TCA Cb	.12	1	13¼	13¼	13¼	
TacVw s		10	8½	8¼	8½	+¼
Tambrd	3	171	52⅞	52¼	52½	-⅛
Tandem		2891	21¼	20½	21⅛	+¼
Tandon		1503	11	10⅞	10⅞	-⅛
TlcmA s	1	268	18⅛	16½	18	+1½
TelPlu s		613	9¼	9⅛	9⅛	-⅛
Telecrd	.28	6	18	17½	17½	-½
Telepict		20	14½	14¼	14¼	-¼
Telvd		1368	10⅞	9¼	10⅞	+½
Telabs s		14	21	20½	20½	-½
Tebon	.01e	102	11¼	10½	11	-⅛
TermD s		67	13¼	13¼	13½	
Tesdata		6	5⅛	5⅛	5⅛	+⅛
TexFdl	1	14	38½	38	38½	+½
Texon	.9	2	1-16	2½	2½	-⅛
Textna	.25e	40	15½	15	15	+¼
ThdNat	1.62	3	37¼	37	37¼	+¼
Thortec		25	6⅛	6⅛	6⅛	-¼
ThouTr		83	27½	27	27⅛	+¼
TmeFib		667	10	9⅛	10	+⅛
Tiprary	1	59	4⅞	4⅛	4⅞	
Tocom	.169	2¼	2	3-16	2¼	
TrakAu		104	14½	14¼	14½	+¼
TWstEx		285	1	⅞	1	
TriadSy		122	13¼	12¼	12¼	-¼
TrusJo	.36	3	25½	25½	25½	
TBkGa s	.80	85	29½	29¼	29½	+⅛
TuckDr		4	7¼	7¼	7⅞	-⅛
TwnCty		18	3	3	3	
U—U						
UTL s		55	16¼	16½	16⅞	-⅛
Ultrsy	.06e	57	16¼	16½	16½	
Ungmn		180	13¼	13½	13¼	+¼
Unifi		212	11	10½	10½	-⅛
Uniwi s		27	4⅞	4⅞	4⅞	-⅛
UnPlntrs	.60	250	25½	25¼	25½	
UACom	.10	105	22¼	22¼	22¼	+¼
UBCol0	1	27	18	17⅞	17⅞	-½
UnEdS		34	6½	6	6¼	-⅛
UFnGrp		31	7½	7⅛	7⅛	-⅛
UFstFd		85	17½	17⅛	17½	
UGrdn	1	8	7⅛	7⅛	7⅛	-⅛
UPres s		216	10½	9⅛	10	+½
UnSvcL	1	4	28⅞	28⅞	28⅞	-⅛
US Ant		52	6	6	6	
US Bcp	1	285	21¼	21	21¼	+⅛
US Cap		22	6½	5⅞	5⅞	-¼
US Hlt s		1670	26⅞	26	26⅞	+¼
US Sh n	.09e	35	5⅞	5⅞	5⅞	
US Sur		79	14¼	14⅛	14¼	+⅛
US Trck	1.20	61	10⅛	10⅛	10¼	-¼
US Tr	1.60	20	39	38½	39	+½
UnTelev		223	14½	13½	13⅞	-¼
UVaBs s	1.44	42	26	25⅞	26	
UnvHlt s		547	13¼	13¼	13⅛	
UrgeC s		61	6⅛	5⅞	6¼	+⅛
V—V						
VLI		350	9½	8½	8½	-⅛
VLSI		382	15¼	15	15	-⅛
VSE	.12e	8	7½	7¼	7½	+⅛
[illegible]		2	11⅞	11⅞	11⅞	+¼
Valtnl	1.16	49	24⅞	24⅞	24⅞	-¼
VanDus	.40	112	15¼	15	15¼	+¼
Vanzetti		9	13½	13	13	
VectorG		124	1½	1⅛	1⅛	-⅛
Ventrex		424	8	7⅞	8	+¼
Vata		152	1⅛	1	1⅛	
ViconF		2	3⅛	3⅞	3⅞	-⅛
Vicorp s	.06	181	18½	18¼	18½	+¼
VictraS		11	6¼	6⅞	6¼	
VideoCp		12	13⅛	13⅛	13⅛	
Viking s		2	12½	12½	12½	
VisTech		267	12¼	12	12¼	-¼
Vodavi		81	8	7¼	8	
Voltinf		290	20¼	19½	20¼	+⅛
W—W						
WD 40	.88	18	21	20½	21	+½
WlkrTel		84	7	6⅞	6⅞	-¼
WshE	1.88	60	15⅞	15½	15½	-⅛
WFSL s	.70	198	16½	16	16½	+⅛
WMSB		36	10⅞	10⅞	10⅞	+⅛
Wavetk		200	9⅛	8½	9⅛	-⅛
Webb s	.48	5	15½	15	15½	-½
WinGasS	2.84	81	42¼	41¼	42¼	+½
WnDigtl		397	9⅞	8⅝	8⅞	-⅛
WmorC	.40e	12	22⅞	22	22	
Wettra	.80	66	18	17⅞	18	-⅛
Wicat		69	3⅞	3⅞	3⅞	-⅛
Widcom		95	10⅛	10½	10⅛	
Wilmt	1.50	19	30¼	30¼	30½	-¼
WilAL		229	10¼	9¼	10¼	+½
WilsnF		88	9½	9⅛	9½	+⅛
WilsnH	.20	125	13¼	13	13⅛	+⅛
Windmr s	.07	443	8¼	7⅞	8¼	+½
WinnEn		80	4½	4⅛	4½	
Winner		30	8⅞	8⅞	8⅞	-⅛
WiserO	.88	550	24½	23⅞	24⅛	+1¼
WoodD	.60	64	14⅛	14½	14½	
WoodL s	1.40	x10	57½	57⅛	57⅛	
Wortig	.56	24	21	20⅞	20⅞	+¼
Wyman	.80	50	29	28½	29	
X—Y—Z						
Xebec s		56	11½	11¼	11½	+¼
Xicor		153	15⅛	15	15⅛	+⅛
Xidex s		158	17¼	17½	17½	
YlowFt	.92	820	26⅛	25⅞	26¼	+¼
ZenLbB		294	16	17¼	17½	
Zentec		13	6	5¼	6	+¼
Zondv s	.30	58	13¼	13¼	13¼	
Zymos		51	4⅛	4½	4½	-⅛
Zytrex		370	6¼	5⅞	5⅞	-⅛

WORLD STOCK MARKETS

WALL STREET

Sentiment subdued by rate fears

THE WAVE of interest rate fears that undermined both stock and fixed interest sectors on Wall Street on Friday left both markets subdued yesterday, *writes Terry Byland in New York.*

Yields at the long end of the bond market remained in the 13 per cent plus range which now seems virtually certain to be confirmed at this week's auctions of Treasury securities. The first hour brought renewed selling in the stock market, but prices steadied later.

The Dow Jones industrial average closed 1.25 up at 1,166.56.

Dr Henry Kaufman's warning that interest rates "will move spectacularly higher" later this year and in 1985 crystallised the fears of the bond market as it awaited the $ 16.5bn in Treasury auctions which open today.

The closing report on Wall Street and updated U.S. market monitors were not available because of continuing industrial action at the Financial Times' printers in Frankfurt.

Last week's batch of economic data, in particular the increase in total employment, suggested that the economy is still growing strongly. Moreover, the unusual revelation of Federal Reserve policy decisions by the president of the Federal Reserve Bank of Boston has reawakened fears of further tightening by the Fed.

There are also growing pressures from inside the bond market itself. This week's heavy burden of Treasury financing will fall on a market weakened by the lack of retail support and by signs of strain among the traders.

Last weekend brought the financial collapse of Lion Capital Group, a small government securities firm. Lion's problems, which are believed to involve federal bond repurchase deals, follow the disclosure of further losses at Marsh & McLennan, and the failure in 1982 of two bond dealing firms, Drysdale Government Securities and Lombard-Wall.

Stock turnover was moderate, with both buyers and sellers active. The total of large block trades – defined as blocks of 10,000 shares or more – was almost halved from Friday, indicating that the major institutions were on the sidelines.

By midsession, the market was looking a shade more optimistic. IBM at $113¼ showed a gain of $⅝.

But the Detroit carmakers continued to lag, reflecting uncertainty over the prospects for the next round of wage negotiations as well as for the voluntary restraint on imports by the Japanese. General Motors shed $⅛ to $64⅛.

Among chemical stocks, Monsanto and Dow traded cautiously following announcement of a tentative settlement in the Agent Orange court case.

A major block of Shell was traded at the overnight price of $58¼. The market expects the parent company's purchase of the outstanding equity to proceed without further problems.

Esmark fell $1½ to $54¾, just below the Kohl Kravis buyout offer, although some market sources believe that a counter bid is still possible.

Milton Bradley, the toymaker facing a $360m cash bid from Hasbro Industries, which would create one of the largest groups in the U.S. industry, eased $¾ to $47⅛ in brisk trading.

Other busy issues included Boeing, $1¼ up at $39¼ on the announcement of new contracts, and Dun and Bradstreet, $¾ higher at $57¼.

In the bond market, the new tranche of the key 30-year bond due for auction on Thursday traded on a when-issued yield of 13.15 per cent, with the existing bond moving in tandem around a price of 91²⁹⁄₃₂, a net rise of ⁵⁄₃₂.

Pressures continued at the short end and, with the federal funds rate at 10⁷⁄₁₆ per cent, the Fed intervened with $1bn in customer repurchase arrangements. Money market rates remained higher by 10 to 15 basis points but Treasury bills came off the boil to show falls of a few basis points in discount rates, putting three-month bills at 9.85 per cent and six-months at 10.25 per cent.

EUROPE

U.S. factors inspire hasty retreat

A BROAD retreat was staged by most European bourses yesterday as investors weighed up the prospect of higher U.S. interest rates and the recent weakness on Wall Street.

The possibility of a metalworkers strike pushed **Frankfurt** lower with the Commerzbank index 9 points down at 1,038.0.

Carmarkers took the brunt of sustained profit-taking with newly listed Porsche dropping DM 37 to DM 983 and BMW turning DM 9 lower to DM 395.

The market holiday today in **Paris** was cited as reason for most operators to absent themselves yesterday. The slow trading that emerged saw some gains in oil, engineering and car stocks, although weakness developed in bank, food, construction, hotel, store and metal shares. Chemicals were mixed. **Amsterdam** shares recovered from their lows in fairly busy trading. Royal Dutch added Fl 1.80 to Fl 160.20 on the strength of the dollar, while KLM slipped Fl 1.50 to Fl 173.50. Bonds trimmed early losses to finish slightly lower.

Banks and some industrial and financial stocks in **Zurich** eased in reaction to last week's rally.

Belgian shares finshed higher in **Brussels** and foreign issues turned lower in moderate trading. Sofina held a BFr 300 to BFr 6,840, while market leader Petrofina added BFr 10 to BFr 8,000.

Lacklustre trading emerged in **Stockholm** with most leading shares tending slightly lower.

The **London** stock market was closed for a holiday and **Madrid** observed its regular Monday closure.

European bourse share prices, Page 36

AUSTRALIA

MINING shares were hard hit in Sydney as investors responded to Friday's predictions by Dr Henry Kaufman on the course of U.S. interest rates. The All Ordinaries index fell 7.7 to 755.1 and the Metals and Minerals index lost 9.6 to 523.2 illustrating the vulnerability of mining companies to American economic trends.

SINGAPORE

UNEASE over the continued Malaysian political uncertainty dampened sentiment in Singapore yesterday, with the Straits Times index closing 2.78 down at 982.53. Speculative selling and light liquidation also contributed to the decline.

Pan Electric, the most active stock with 773,000 shares traded, gained 6 cents to S$1.93.

HONG KONG

EXPECTATIONS of further rises in U.S. interest rates and a general lack of buying turned Hong Kong sharply lower. The Hang Seng index slumped 51.09 to 953.70, its deepest single-day fall since Jardine Matheson decided to reincorporate in Bermuda.

TOKYO

Blue chips hit by end of spiral

THE SEVERE setback on Wall Street last Friday combined with Tokyo's growing concern at spiralling prices to push stock values down yesterday, *writes Shigeo Nishiwaki of Jiji Press.*

Many issues fell back on small-lot selling, with Hitachi and other blue chips sold across the board. In contrast, oils and some pharmaceuticals attracted buyers.

The Nikkei-Dow Jones market average, which plunged 41 points by 10am, closed the day 31.21 down at 11,158.96. Volume shrank to 491.13m shares from Friday's 731.03m.

Some expected that after last week's holidays, the market would extend its recent gains. However, fears of a looming setback became evident.

Friday's Wall Street decline triggered the fall, with investors scurrying to sell a wide range of blue-chip issues, particularly light electricals and precision instruments. TDK retreated Y70 to Y5,830 and Sony Y40 to Y3,580.

Fading hopes for increased foreign buying sent blue chips slipping across the board. Hitachi eased Y7 to Y952, Matsushita Electrical Industrial Y20 to Y1,980, Canon Y40 to Y1,370 and Ricoh Y40 to Y1,080.

Big-capital steel issues were actively traded. Foreign investors have stepped up purchases of steel issues since early April on the strength of a recovery in steel prices and expectation of a stronger yen.

In recent days, however, they have noticeably increased selling of steel issues, which have been sought largely by industrial corporations with surplus funds. Nippon Steel remained unchanged at Y185 and Sumitomo Metal Industries firmed Y4 to Y196.

Selective buying interest returned to highly speculative pharmaceuticals and oils. Mochida Pharmaceutical gained Y240 to Y4,950 and Kaken Pharmaceutical Y90 to Y2,380, on news of the development of new anti-cancer drugs.

Some oils benefited from plans for oil exploration in the Japan-South Korean continental shelf. Teikoku Oil advanced Y22 to Y752 and Arabian Oil Y200 to Y6,500.

Preoccupied with the plunge of the yen against the U.S. dollar, the bond market suffered a severe setback. Heavy selling of bonds worth about Y30bn by a large trust bank weighed the market down.

The mood was worsened by a continued fall in the yen rate, with the yield on the 7.5 per cent long-term government bond due January 1993 climbing to 7.26 per cent from last Friday's 7.1 per cent.

SOUTH AFRICA

THE FURTHER weakening in the bullion price depressed Johannesburg gold shares yesterday.

Buffels slipped R2.25 to R79.75, while Free State Geduld incurred a R1.75 decline to R49.75.

CANADA

GOLDS and oils led the declines in Toronto yesterday although some early weakness was partly erased. Transport and industrial shares managed to gain ground.

Banks were a weak spot in Montreal although some firmness was evident among utility issues. Investors are maintaining a close watch on events on Wall Street and are therefore reluctant to make any large commitment until the trend of U.S. interest rates become clearer.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

INSURANCES

Insurances—continued

Colonial Mutual Group

24 Ludgate Hill EC4P 4BD. 01-248 9861

Capital Life Assurance

Key Inv Fd	—	129.75	....	—
PcmkrInvFd	—	132.4	....	—
Equity Fd	134.61	141.70	....	—
FxdIntFd	111.72	117.60	....	—
Propty Fd	114.47	120.49	....	—
Cash Fd	102.91	108.33	....	—
ManagdFd	130.58	137.45	....	—

Col Mut Life (Pension Annuities)

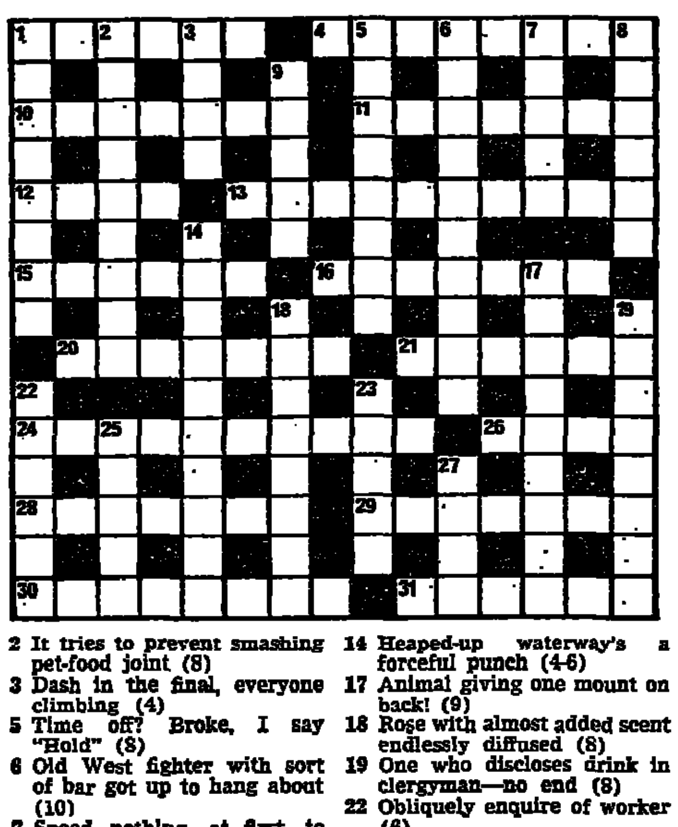
ManCpA/B	117.81	124.02	+0.01	—
ManInvA/B	119.00	125.27	+0.09	—

Offshore & Overseas—continued

Money Market Trust Funds

Money Market Bank Accounts

F.T. CROSSWORD PUZZLE No. 5,410



ACROSS

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday

1 One counting out loud? (6)
4 Stable worker—a supporter of 30 (3, 5)
10 Miser, confused, daring to embrace first sign of generosity (7)
11 Some surrounded by fat seen about the neck (7)
12 It's a turnabout, getting a drink (4)
13 *Old Penny's purer* in 'eart in song rendered for operetta (9)
15 Thin ice cracked one leaves for kind of minority (6)
16 Poison—dicey when sprayed round one (7)
20 A very soft rest to satisfy (7)
21 Bribe recalled in flower? Knock off pedestal (6)
24 Great! Picked out at Wimbledon we hear. Succeeded? (10)
26 Allot food to an audience (4)
28 Came here (7)
29 Dog to dog to dock! (7)
30 Goes with 4 (3, 5)
31 Golfer, perhaps (6)

DOWN

1 Cornish place to give colour to an upper-class girl (8)
2 It tries to prevent smashing pet-food joint (8)
3 Dash in the final, everyone climbing (4)
5 Time off? Broke, I say "Hold" (8)
6 Old West fighter with sort of bar got up to hang about (10)
7 Speed nothing, at first, to speak about (5)
8 Contemporary doctor's ruin (6)
9 Spanish farewell, said perhaps about ring (5)
14 Heaped-up waterway's a forceful punch (4-6)
17 Animal giving one mount on back! (9)
18 Rose with almost added scent endlessly diffused (8)
19 One who discloses drink in clergyman—no end (8)
22 Obliquely enquire of worker (6)
23 Smell beheaded fish (5)
25 In which rupees (not English) could be? (5)
27 Tutor always includes kind of exam (4)

INSURANCE & OVERSEAS MANAGED FUNDS

Barclays Life Ass.—Cont.

Income Accum.	138.5	145.8	-0.6	—
Do. Initial	132.2	139.2	-0.6	—
Universal Tec. Acc.	94.2	99.2	-0.6	—
Do. Initial	92.8	97.7	-0.5	—
Man. Pens. Accum.	275.0	289.5	.....	—
Do. Initial	222.9	234.8	.....	—
Gilt-Edg Pens. Accum.	220.9	232.5	.....	—
Do. Initial	172.1	181.2	.....	—
Money Pens. Accum.	196.3	206.7	.....	—
Do. Initial	155.2	163.4	.....	—

Black Horse Life Ass. Co. Ltd.
71, Lombard St., EC3. 01-623 1288

Black Horse Man. Fd.	242.11		.....	—
Managed Inv. Fd.	175.37	184.60	.....	—
Property Fd.	154.90	163.06	.....	—
Fixed Interest Fd.	149.66	157.44	.....	—
Cash Fd.	139.26	146.59	.....	—
Income Fd.	202.57	213.24	.....	—
Extra Income Fd.	197.87	208.29	.....	—
Worldwide Growth Fd.	230.86	243.02	.....	—
Balanced Fd.	204.85	215.63	.....	—
Smlr Co's & Recv. Fd	231.01	243.17	.....	—
Int. Technology Fd	257.53	271.09	.....	—
Nth. Amer. & Gen. Fd.	150.97	158.92	.....	—
Energy Int. Fd.	113.93	119.93	.....	—
Pacific Basin Fund	164.31	172.96	.....	—

British National Life Assurance Co. Ltd.
Harlands Rd., Haywards Heath. 0444 414111

Managed	123.1	129.6	+0.3	—
Property	127.8	134.5	+0.3	—
Equity	135.2	142.3	+1.0	—
International	137.7	145.0	+1.6	—
Fixed Interest	106.6	112.2	-0.9	—
Deposit	102.3	107.7	+0.4	—
Managed Pen. Cap.	123.0	129.5	+0.4	—
Property Pens. Cap.	129.6	136.4	+0.2	—
Equity Pens. Cap.	129.9	136.7	+0.9	—
Intnl. Pens. Cap.	142.8	150.3	+2.0	—
Fixed Int. Pens. Cap.	101.4	106.8	-0.9	—
Deposit Pens. Cap.	98.4	103.8	.....	—

Canada Life Group
2-6, High St., Potters Bar, Herts. P. Bar 51122

Equity Gth March 1		103.6	.....	—
Retmt. Fnd. April 6	296.3	+21.1	.....	—
Managed Pen Fund	198.2	208.7	.....	—
Property Pen Fund	116.0	122.1	.....	—
Index Lnkd Pen Fund	111.5	117.4	.....	—
Managed	130.9	137.8	-0.1	—

[illegible]

G.T. Management Ltd.
16 Finsbury Circus, Lond. EC2M 7DJ. 01-628 8131

G.T. Plan Bond Fund	127.0	133.7	.....	—
GT Pln High Yld Fnd	141.0	148.5	+0.7	—
GT Plan Far East Fnd	139.5	146.9	-0.6	—
GT Plan N. Am Fd	125.3	131.9	+1.1	—
GT Pln UK&G.E. Fnd	162.3	170.9	+0.8	—
GT Pln Wrldwde Fnd	156.5	164.8	-0.1	—
GT Pension Bnd Fnd	138.9	146.3	+0.1	—
GT Pen High Yld Fd	163.8	172.5	+0.8	—
GT Pen Far East Fd	176.7	186.1	-0.5	—
GT Pen N. Am. Fd	184.5	194.3	+1.3	—
GT Pen UK & G.E. Fd	189.6	199.6	+0.9	—
GT Pen Worldwide Fd	167.9	176.8	-0.2	—

Prices for Accum. Units only.

Assicurazioni GENERALI S.p.A.
117, Fenchurch St., EC3M 5DY. 01-488 0733

Intl. Managed Bond	174.7	183.9	+1.1	—

General Portfolio Life Ins. PLC
Crossbrook St., Cheshunt, Herts. Waltham X 31971

Portfolio Fd. Acc.		279.0	+5.1	—
Portfolio Fd. Init.		225.0	+3.6	—

Continued on adjacent Page

Gresham Unit Ass. Ltd.
2-6, Prince of Wales Rd. B'mouth. 0202 767655

Managed Fd.	292.4	308.1	.....	—
Money Fd	159.4	167.8	.....	—
Equity Fd.	247.6	260.9	.....	—
Fixed Int. Fd.	120.4	126.9	.....	—
Property Fd	177.4	186.9	.....	—
Managed Pen. Fd.	287.3	302.7	.....	—
Equity Pension Fd	184.2	194.1	.....	—
Fixed Int. Pen. Fd	171.2	180.4	.....	—
High Yield Pen. Fd	168.8	177.9	.....	—
Money Pension Fd	133.5	140.5	.....	—
Property Pension Fd	132.9	140.0	.....	—

Gresham/Framlington

American & Gen. Fd	235.4	248.0	+2.4	—
Income Fd	224.2	236.3	+1.1	—
Int'l. Growth Fd	279.9	292.8	+2.2	—
Capital Fund	231.9	244.4	+0.8	—
Recovery Fund	171.5	180.7	+0.7	—
Japan & Gen Fd	106.0	111.7	-0.3	—

Growth & Sec. Life Ass. Soc. Ltd.
48, London Fruit Exchange, E1 6EU 01-377 1122

Flexible Finance	1.536	—	.....	—
Landbank Secs.	0.6674	—	.....	—
Landbank Secs. Acc.	189.2	194.1	.....	—

[illegible]

OFFSHORE AND OVERSEAS

[illegible]

NOTES

[illegible]

FT LONDON SHARE INFORMATION SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
19D	19Jun	Exch. 3pc 1984	99 1/16	14.11	3.02	8.81
26Mar	26S	Treas 12pc 1984	100 7/16	20.2	11.89	9.23
22Aug	22F	Treas. 15pc 1985	103 3/32	16.1	14.43	9.59
22S	22Mar	Exch. 12pc Cnv. '85	101 7/8	14.2	11.78	9.64
21N	21My	Treas 3pc 1985	94 15/16xd	16.4	3.16	8.20
15Jan	15Jul	Treas 11½pc 1985	101 5/8	9.12	11.32	9.97
3Mar	3Se	Treas 8¾pcCnv '85	98 3/8	26.1	8.89	10.02
22May	22N	Exch. 12¼pc 1985	102 13/16xd	16.4	11.91	10.22
25Aug	25Fb	Exch. 11¾pc '86	102 7/16	19.1	11.47	10.18
11Oct	11Apr	Treas. 10pcCnv 1986	99 3/4	5.3	10.03	10.13
19N	19May	Treas 3pc 1986	89 1/4xd	12.4	3.36	8.91
19Nv	19My	Exch. 10½pc Cv '86	100 3/16xd	12.4	10.48	10.40
12Dec	12Jun	Treas 12pc 1986	102 5/8	7.11	11.69	10.54
10Ja	10Jul	Treas 8½pc 1984-86‡‡	96 5/8	5.12	8.80	10.26
29Ap	29Oc	Exch. 14pc 1986	107 1/8	23.3	13.07	10.64
21May	21N	Exch. 2½pc 1986	86 3/16xd	16.4	2.90	8.68
22Jul	22Jan	Exch. 13¾pc 1987	105 11/16	16.12	12.54	10.73
10Aug	10Fb	Treas 10⅛%Cv '87	98 5/8	4.1	10.38	10.74
24Aug	24Feb	Exch 2½pc 1987	84 1/8	18.1	2.97	9.03
6Oct	6Apr	Exch. 10½pc 1987	99 1/8	1.3	10.59	10.84
1N	1May	Funding 6½pc '85-87‡‡	90 5/8	26.3	7.17	10.22
12Dec	12Jne	Treas. 10pc 1987	97 9/16	1.3	10.25	10.92
14Jan	14Jly	Treas 3pc 1987	82 3/4	8.12	3.63	9.39
3May	3Nov	Treas. 12pc 1987	103	27.3	11.65	10.93
26Jul	26Ja	Treas 7¾pc 1985-88‡‡	92 1/4	30.12	8.40	10.29
10Nov	10May	Exch 10½pc '88	98 5/8xd	4.10	10.65	10.94
14Dec	14Jne	Treas 9¾pc Cv '88	95 11/16	—	10.19	11.07
1Jan	1Jul	Transport 3pc '78-88	78 1/2	23.11	3.82	9.37
25Ap	25Oc	Treas. 9½pc '88	94 5/8	19.3	10.04	11.04
22Aug	22Fb	Treas 11½pc 1989	101 5/8	16.1	11.32	11.02
18Oct	—	Treas9½pcCv'89(£50pd)#	49 7/16	—	10.01	10.86

Five to Fifteen Years

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
14Dec	14Jun	Treas.10½pc 1989	101 5/8	7.11	10.78	11.16
1Feb	1Aug	Exch.10pc 1989	99	—	10.51	11.22
1Feb	1Aug	Do.10pc '89A (£70pd)	68 1/8	—	10.51	11.24
15Ap	15Oct	Treas 5pc 1986-89	80 1/4	9.3	6.26	9.85
15Jly	15Ja	Treas 13pc 1990‡‡	111	9.12	12.16	11.29
22Se	22Mar	Exch. 12½pc 1990	106½	14.2	11.92	11.32
15D	15Jun	Treas 8¼pc 1987-90‡‡	91 5/8	8.11	9.34	10.90
25Ap	25Oc	Treas. 10pcCv 1990	96 1/4	—	10.58	11.19
10Jul	10Ja	Treas 11¾pc 1991	105 1/8	5.12	11.60	11.45
5Oct	5Apr	Funding 5¾pc '87-91‡‡	78 5/8	1.3	7.36	10.24
25Ap	25Oc	Exch. 11pc 1991	99 1/4	19.3	11.13	11.22
22Jly	22Jan	Treas 12¾pc 1992‡‡	110½	16.12	11.94	11.39
21Ag	21Fb	Treas 10pc 1992	96 7/8	16.1	10.55	11.00
25Fb	25Ag	Exch. 12¼pc '92	106 5/8	19.1	11.73	11.49
22Mar	22Sp	Exch 13½pc 1992	111 1/4	14.2	12.27	11.58
14Ja	14Jy	Treas 12½pc 1993‡‡	109 7/8	8.12	11.80	11.43
15Mar	15Sp	Funding 6pc 1993‡‡	74½	7.2	8.15	10.48
23May	23N	Treas 13¾pc 1993‡‡	112 1/4xd	17.10	12.16	11.46
Sep	1Mar	Treas 14½pc 1994‡‡	120 1/4	24.1	12.28	11.38
27Oct	27Apr	Exch 13½pc 1994	112	21.3	12.10	11.51
22F	22Aug	Exch. 12½pc 1994	108 5/8	16.1	11.79	11.46
17May	17N	Treas 9pc 1994‡‡	88 1/4xd	10.4	10.19	10.88
25Jul	25Ja	Treas 12pc 1995	106 1/4	19.12	11.66	11.50
1Nov	1May	Gas 3pc '90-95	61 3/8	26.3	4.89	8.48
21Jan	21Jly	Exch. 10¼pc 1995	96 3/8	15.12	10.94	11.24
15May	15N	Treas 12¾pc 1995‡‡	108 1/4xd	9.4	11.70	11.33
22Jly	22Jan	Treas. 14pc '96	119 5/8	16.12	12.12	11.53
15S	15Mar	Treas 9pc 1992-96‡‡	88 7/8	7.2	10.28	10.89
3Nov	3May	Treas 15¼pc 1996‡‡	124 1/4	27.3	12.24	11.43
15Nov	15May	Exch 13¼pc 1996‡‡	112 1/4xd	9.4	11.73	11.25
1Ap	1Oc	Redemption 3pc 1986-96	66½	24.2	4.53	7.16
22Jul	22Ja	Treas 13¼pc 1997‡‡	117	16.12	11.71	11.27
21Aug	21F	Exch 10½pc 1997	98 1/4	16.1	10.93	11.07
1Mar	1Sep	Treas 8¾pc 1997‡‡	87	24.1	10.25	10.83
27Ap	27Oct	Exch. 15pc 1997	124½	21.3	12.09	11.45
19Jly	19Jan	Exch. 9¾pc 1998	93 1/8	—	10.63	10.92
1Nov	1May	Treas 6¾pc 1995-98‡‡	72 1/2xd	26.3	9.33	10.58
30Mar	30Sep	Treas. 15½pc '98‡‡	130 5/8	22.2	12.02	11.35
20May	20Nv	Exch. 12pc 1998	105 3/4xd	14.10	11.31	11.14
15Jul	15Jan	Treas 9½pc 1999‡‡	94	9.12	10.44	10.71
26Sp	26Mar	Exch. 12¼pc 1999	109½	20.2	11.34	11.12

Over Fifteen Years

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
19Nv	19May	Treas. 10½pc 1999	96 3/4xd	12.4	10.80	10.89
22My	22Nv	Convers'n 10¼pc 1999	95 1/4xd	16.4	10.73	10.85
14Ja	14Jul	Treas. 13pc 2000	118 1/8	9.12	11.36	11.06
22N	22May	Treas. 14pc '98-01	118 3/4xd	16.4	11.77	11.29
22Jul	22Ja	Exch. 12pc '99-02	110 1/4	16.12	11.24	11.05
11Apr	11Oct	Conv. 10pc 2002	96½	—	10.44	10.53
25Ja	25Jul	Treas. 13¾pc 2000-03	123½	19.12	11.50	11.11
19S	19Mar	Treas. 11½pc 2001-04	107 7/8	13.2	10.87	10.68
14Ja	14Jul	Funding 3½pc '99-04	48 1/2	8.12	7.38	9.33
21May	21N	Treas. 12½pc 2003-05	114 3/4xd	16.4	10.89	10.68
5Apr	5Oct	Treas. 8pc 2002-06‡‡	82 1/8	1.3	9.80	10.07
22Jly	22Jan	Treas. 11¾pc 2003-07	112 1/8	16.12	10.81	10.66
26Sp	26Mar	Treas. 13½pc '04-08	124 1/4	20.2	11.01	10.70
10Mar	10S	Treas. 5½pc 2008-12‡‡	60 1/4	8.84	9.19	9.66
26Jly	26Jan	Treas. 7¾pc 2012-15	81 1/4	20.12	9.74	9.87
12Jun	12Dec	Exch. 12pc '13-'17	121 1/8	7.11	10.30	10.21

Undated

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
1Feb	1Aug	Consols 4pc	40 1/8	28.12	10.24	—
1Jun	1Dec	War Loan 3½pc‡‡	34 3/4xd	25.4	10.18	—
1Apr	1Oct	Conv. 3½pc '61 Aft.	44 1/8	24.2	7.95	—
5Ap	5Oct	Treas. 3pc '66 Aft.	29 5/8	1.3	10.13	—
5Ja Ap Jly O		Consols 2½pc	25 1/8	1.3	10.04	—
1Apr	1Oct	Treas. 2½pc	24 5/8	24.2	10.15	—

Index-Linked

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INT. BANK AND O'SEAS GOVT STERLING ISSUES

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH AND AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BEERS, WINES—Cont.

[illegible]

BUILDING INDUSTRY, TIMBER AND ROADS

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY & STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

HOTELS—Continued

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

هكذا من الاصل

INDUSTRIALS—Continued

INSURANCES

LEISURE

LEISURE—Continued

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING ADVERTISING

PROPERTY

PROPERTY—Continued

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

INVESTMENT TRUSTS—Cont.

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Continued

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Finance

Diamond and Platinum

Central African

MINES—Continued

Australians

Tins

Miscellaneous

NOTES

REGIONAL & IRISH STOCKS

OPTIONS — 3-month call rates

Industrials		Hawker Sidd	38	Vickers	14
Allied-Lyons	15	Hse of Fraser	26	Woolworth Hldg	50
BOC Grp	27	ICI	42		
BSR	26	'Imps'	12	**Property**	
Babcock	17	ICL	7	Brit Land	11
Barclays Bank	45	Ladbroke	23	Cap Counties	16
Beecham	32	Legal & Gen	45	Land Secs	25
Blue Circle	40	Lex Service	40	MEPC	35
Boots	16	Lloyds Bank	50	Peachey	17
Bowaters	25	'Lofs'	3	Samuel Props	12
Brit Aerospace	30	Lucas Inds	18	Sterling Guar.	4
BAT	15	'Mams'	14		
Brown (J.)	3	Marks & Spcr	20	**Oils**	
Burton Ord	22	Midland Bk	36	Brit. Oil & Min.	9
Cadburys	11	NEI	10	Brit Petroleum	35
Comm Union	16p	Nat West Bk	60	Burmah Oil	17
Courtaulds	11	P & O Dfd	25	Charterhall	9
Debenhams	14	Plessey	20	Premier	6
Distillers	22	Racal Elect	18	Shell	55
Dunlop	5	RHM	8	Tricentrol	20
FNFC	6	Rank Org Ord	24	Ultramar	60
Gen Accident	42	Reed Intnl	40		
Gen Electric	16	Sears	6		
Glaxo	70	TI	22	**Mines**	
Grand Met	30	Tesco	16		
GUS 'A'	55	Thorn EMI	55	Charter Cons	24
Guardian	50	Trust Houses	18	Cons Gold	58
GKN	20	Turner Newall	10	Lonrho	12
Hanson Tst	17p	Unilever	75	Rio T Zinc	60

A selection of Options traded is given on the London Stock Exchange Report page.

"Recent Issues" and "Rights" Page 18

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £700 per annum for each security.

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar threatens to disappoint

BY COLIN MILLHAM

The dollar appeared to have disappointed its supporters as last week drew to a close, but Dr Henry Kaufman of Salomon Brothers, came to its rescue and proved he still has considerable influence on the markets. His comments that although a sharp rise in U.S. interest rates is not imminent, next year could see a spectacular increase to record levels reversed the dollar's downward drift on Friday, and left it slightly firmer on the week.

It rose to DM 2.7205 from DM 2.7060 on the week, but there are several chart resistance points around this level, and it is by no means clear the dollar is capable of maintaining this sort of value after conspicuously failing to advance to the DM 2.75 level.

It fell to a low of DM 2.6950 on Friday, before Dr Kaufman's predictions, and at that time the market was only prepared to suggest that the dollar could be trading at anywhere between DM 2.65 and DM 2.75 this week.

It began last week quite well, ignoring economic figures such as the first fall in U.S. leading economic indicators since March 1982. This led to a general belief that the market was once again only concerned with interest rates, since the dollar had already shrugged off the record March trade deficit of $10.26bn, and appeared to be surging ahead.

May Day holidays in Europe kept trading quiet on Tuesday, but with the D-mark out of favour because of the strike threat by German engineering workers, there seemed little to stand in the dollar's way until the chart watchers became disillusioned on Thursday.

The latest money supply figures, *showing* a greater than expected fall in weekly M1, were also a depressing factor, but it will be interesting to see how the market regards today's monthly UK money supply, and the likely influence on sterling.

The pound ended the week on a firm note, and there were suggestions the Bank of England may have intervened from time to time to prevent too sharp a rise against Continental currencies. A volatile dollar and nervousness about the D-mark tended to make sterling something of a refuge currency.

£ in New York

	May 4	Prev. close
Spot	$1.4015-4025	$1.4185-4195
1 month	0.22-0.25 dis	0.23-0.25 dis
3 months	0.66-0.70 dis	0.66-0.68 dis
12 months	2.90-3.00 dis	2.82-2.89 dis

£ forward rates are quoted in U.S. cents discount.

EMS EUROPEAN CURRENCY UNIT RATES

	ECU central rates	Currency amounts against ECU May 4	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc ...	44.9008	45.6606	+1.69	+1.64	±1.5447
Danish Krone ...	8.14104	8.20472	+0.78	+0.73	±1.6425
German D-Mark	2.24184	2.23974	−0.09	−0.14	±1.0642
French Franc ...	6.87456	6.87856	+0.06	+0.01	±1.4052
Dutch Guilder ...	2.52595	2.52201	−0.16	−0.21	±1.4964
Irish Punt	0.72569	0.730182	+0.62	+0.57	±1.6699
Italian Lira	1403.49	1386.55	−1.21	−1.21	±4.1505

Changes are for ECU, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

FORWARD RATES AGAINST STERLING

	Spot	1 month	3 month	6 month	12 month
Dollar	1.4095	1.4119	1.4164	1.4237	1.4398
D-Mark	3.8375	3.8271	3.8046	3.7718	3.7117
French Franc	11.77	11.8090	11.8786	12.0239	12.2900
Swiss Franc	3.1725	3.1579	3.1294	3.0904	3.0342
Japanese Yen	320.0	319.1	317.6	315.2	310.3

BANK OF ENGLAND TREASURY BILL TENDER

	May 4	April 27		May 4	April 27
Bills on offer	£100m	£100m	Top Accepted rate of discount	8.5434%	8.3609%
Total of applications	£380m	£585m	Average rate of discount	8.5426%	8.3529%
Total allocated	£100m	£100m	Average yield	8.75%	8.54%
Minimum accepted bid	£97.87	£97.915	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	78%	92%			

THE POUND SPOT AND FORWARD

May 4	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	1.4070-1.4170	1.4090-1.4100	0.22-0.27c dis	−2.08	0.67-0.72dis	−1.97
Canada	1.8160-1.8240	1.8200-1.8210	0.26-0.35c dis	−2.01	0.80-0.89dis	−1.86
Nethlnd.	4.2950-4.3250	4.31-4.32	1¼-1c pm	3.13	3¾-3¼ pm	3.24
Belgium	77.80-78.30	78.15-78.25	15-23c dis	−2.92	44-53 dis	−2.48
Denmark	13.98-14.04	14.0250-14.0350	2¾-3½ore dis	−2.30	5¾-6⅞ dis	−1.80
Ireland	1.2453-1.2516	1.2480-1.2505	0.36-0.43p dis	−3.79	0.98-1.11dis	−3.34
W. Ger.	3.82-3.8450	3.83¼-3.84¼	1¼-1pf pm	3.52	3½-3¼ pm	3.52
Portugal	192.75-195.00	193.25-193.75	115-305c dis	−13.02	370-445 dis	−8.42

FINANCIAL FUTURES

Queensland Coal Finance Limited

US$46,000,000

Floating Rate Notes Due May 1985/96

Holders of Floating Rate Notes of the above issue are hereby notified that for the first interest period from May 9, 1984 to November 9, 1984 the following information is relevant:

1. First applicable interest rate: 11⅞% per annum
2. Interest payable on first interest payment date: US$590.97 per US$10,000.00 nominal
3. First interest payment date: November 9, 1984

May 4, 1984 BA Asia Limited Reference Agent

WEEKLY CHANGE IN WORLD INTEREST RATES

WORLD VALUE OF THE POUND

Asian $ (closing rates in Singapore): Short-term 10⅞-10⅝ per cent; seven days 10⅞-10⅝ per cent; one month 10⅝-10⅝ per cent; six months 11⅝-11⅞ per cent; one year 11⅝-11⅝ per cent. Long-term Eurodollars two years 12¾-13 per cent; three years 13⅛-13⅛ per cent; four years 13⅛-13⅛ per cent; five years 13⅛-13⅝ per cent nominal closing rates. Short-term rates are call for U.S. banks and Japanese yen; two days' notice.

MONEY MARKETS

Higher base rates expected

Financial markets were discounting a rise to at least 9 per cent in London clearing bank base rates by the end of last week. Dealers suggested the main decision involved the timing of the move, which if delayed might create further pressure resulting in a higher final figure.

At the same time the long holiday weekend may have encouraged the banks to hold back from an early commitment on an increase in base rates, while it is generally assumed today's mid-April money supply figures will play a part in deciding when and by how much rates are pushed higher.

UK clearing banks' base lending rate 8½-8¾ per cent (since March 15 and 16)

But there was also a suspicion that banks were reluctant to make any quick move on rates that might meet with Government disapproval at a time when they are probably still hoping to reach some accommodation over their tax position after the last Budget.

It had been expected the authorities could contain any upward pressure on rates during the immediate future, despite a general acceptance that U.S. rates will hold firm, but sentiment has changed.

In the latter part of last week the discount houses reduced the prices at which they buy and sell eligible paper in the money market, pushing up interest rates across the board. Rates on three-month bank bills rose to 8⅞ per cent from 8⅝ per cent, and this contributed to the increase in the rate on three-month interbank money to 9⅞ per cent from 8⅝ per cent.

As interest rates increased towards the end of the week day-to-day credit shortages were of little problem to the Bank of England, remaining at a fairly comfortable level.

Discount houses were obvious keen sellers of bills, and the Bank of England almost bought enough to take out the full shortage before lunch on Thursday and Friday.

The official intervention rate for three-month bills remained at 8¾ per cent, which was ¼ per cent below the market level, and gave a good indication of where rates are expected to be by the end of this week. There was also an increase in the weekly Treasury bill tender rate, pointing to base rates of possibly more than 9 per cent, but at the moment it is simply a matter of waiting for the money supply figures, and then deciding where rates should be.

MONEY RATES

May 4	Frankfurt	Paris	Zurich	Amst'dam	Tokyo
Overnight	5.50-5.65	12⅞	1½-2½	6½-6⅝	5.71875
One month	5.70-5.80	12⅛-12¼	3¼-3⅜	5⅝-5¾	6.09375
Two months	5.70-5.80	12⅛-12⅜	—	—	—
Three months	5.75-5.90	12¼-12⅝	3⅞-3⅞	5⅞-5⅞	6.21875
Six months	5.85-6.00	12⅝-12½	—	5-5⅞	—
Lombard	5.5	—	—	—	—
Intervention	—	12	—	5⅞	—

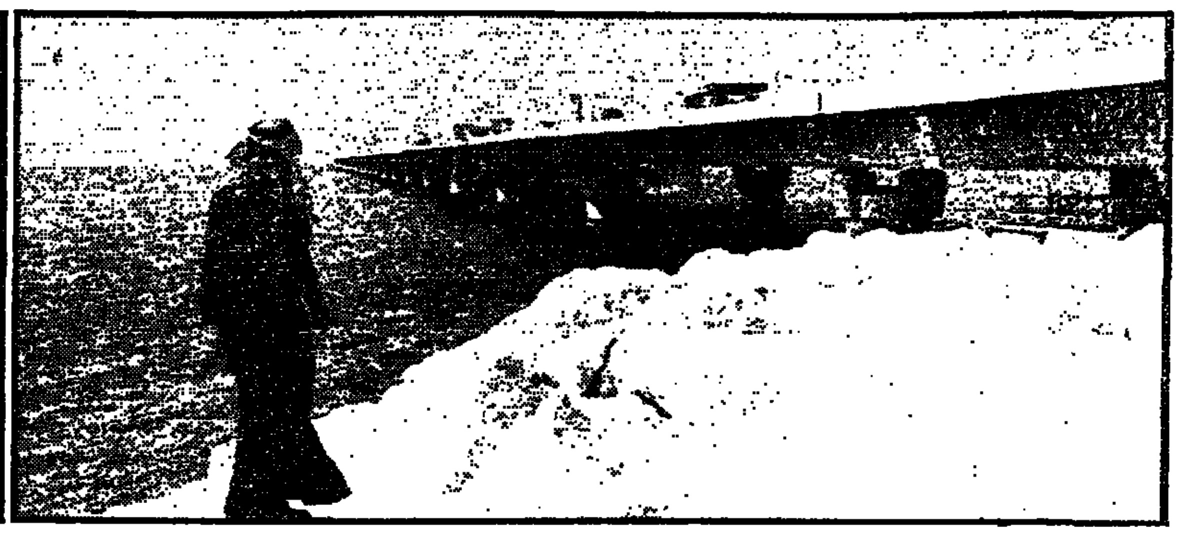
LONDON MONEY RATES

May 4 1984	Sterling Certificate of deposit	Interbank	Local Authority deposits	Company Deposits	Market Deposits	Treasury (Buy)
Overnight	—	1½-8½	7¼-8½	4-8¼	2-8	—
2 days notice	—	—	8⅝-8½	—	—	—
7 days or	—	—	—	—	—	—
7 day notice	—	7¾-8⅝	8½-8⅝	8⅝-8½	7¾-8¼	—
One month	9 8⅞	8¾-9	8⅞	9⅛	8⅝	8⅞
Two months	9⅛-9	9⅛-9⅛	9	9¼	8⅝	8⅞
Three months	9⅜-9⅛	9⅛ 9⅞	9⅛	9⅝	8⅝	8⅞
Six months	9⅞-9⅞	9⅛-9⅝	9⅛	—	—	—
Nine months	9⅞ 9⅜	9⅝-9¾	9⅛	—	—	—
One year	9½-9⅜	9¾-9⅛	9¾	—	—	—

FT LONDON INTERBANK FIXING

MONEY RATES

FINANCIAL TIMES SURVEY



LEFT: HAMAD NEW TOWER, NEAR MANAMA (SEE PROFILE ON NEXT PAGE). CENTRE: THE AMIR, SHEIKH ISA BIN SULMAN AL-KHALIFA. RIGHT: THE CAUSEWAY TO SAUDI ARABIA (SEE PAGE ELEVEN).

Photographs for this Survey by Terry Kirk

Bahrain

Bahrain's prosperity is being maintained by Gulf neighbours anxious to minimise the effects of the Iran-Iraq war and of falling oil prices. The island's position as a service centre for the region is under challenge, however, as other states develop their own facilities.

IN THE FIVE years since Ayatollah Khomeini came to power Bahrain has lived under the shadow of the Iranian revolution. The extent to which the island's rulers take the threat seriously varies, but the Iran-Iraq war provides an ominous background to all political and economic developments.

By Patrick Cockburn

The impact of the revolution and the war is often underestimated by visitors to Bahrain or by Bahrainis themselves. It has not disrupted commercial life or punctured confidence in the prosperity of the island, and there is little enough that Bahrain can do to determine the outcome of the conflict to the north.

The battles now being fought around Basra and further north will, nevertheless, determine the shape of the world in which Bahrain lives. Moreover, the Iran-Iraq war has already had a greater effect on the island than on neighbouring states.

With limited oil exports Bahrain is very dependent on its position as a regional centre. Pan-Arab institutions have been attracted by its central location and the availability of skilled local labour.

The outbreak of the Iran-Iraq war in 1980 has forced the smaller Gulf oil states, led by Saudi Arabia, to have closer political and economic links. This tendency was institutionalised in 1981 by the formation of the six member Gulf Co-operation Council and Bahrain has been the greatest beneficiary of the new alliance.

Saudi Arabia has a stake in ensuring that Bahrain's prosperity is sustained. It is paying for the causeway which will link the island to the Kingdom's eastern province by the end of next year. It has also ensured that the production level of the vital Abu Safa oil field which is shared by Bahrain and Saudi Arabia but operated by Aramco will sustain its output at a high level—a vital consideration for the Bahraini Government which is dependent for 40 per cent of its revenues on this offshore field.

Other members of the GCC have also proved generous. Bahrain is to benefit from the establishment of a $1bn GCC defence fund to pay for new arms and equipment for the 2,700-strong Bahrain Defence Force. At the same time three major pan-Arab projects—petrochemicals, iron and steel, and aluminium rolling mill plants—will be completed on the island over the next or three years.

Given that the island only has a population of 350,000, of whom 240,000 are Bahraini citizens, these injections of money and investment ensure that the economy is booming.

Overall Government cutbacks in consequence have been kept very small. The 1982-85 development plan has been stretched by an extra two years, but none of the projects contained in it have been cancelled. Power, water and housing get priority.

The political priority which Saudi Arabia, Qatar and Abu Dhabi give to funding projects on the island is all the more important because as a commercial entrepot Bahrain is facing another set of difficulties. Much of its original success as a regional centre in the past was based on the fact that it started earlier—oil was discovered in 1931— and its schools were producing educated Bahrainis before education had made much headway in neighbouring states.

Today all the other members of the GCC have built their own airports and docks, and can largely cater for their own markets. Bahrain is no longer necessary as a way to circumvent a range of supply bottlenecks in commerce and banking. As a service centre Bahrain's position is static or declining.

Yet even when the causeway is open it is doubtful if Bahraini merchants will find new markets. Prices on the mainland are considerably lower than in Bahrain and the flow of goods may well be the other way.

Bankers are also feeling the pinch. The economy of Bahrain itself is booming but their wider ambitions in the region have been hit by a series of problems, mostly stemming from the fall in oil revenues. There is a slump in business in Saudi Arabia's eastern province and in the financing needs of the Saudi private sector. The war has forced austerity on Iraq and in the United Arab Emirates contractors are waiting a long time to get paid. Kuwait is still feeling the results of the Souq al-Manakh stock market crash.

Inevitably, the wider growth aspirations of banks are being curtailed in this colder business climate. "I shall certainly read what you write," a banker told this correspondent, courteously. "It is not as if I had much else to do."

Such gloom among some bankers is a measure of previously exaggerated expectations. The local market is extremely buoyant, though there is continual debate about the manner in which the opening of the causeway will change the economic and social face of Bahrain when completed at the end of next year.

"Anybody who knows what the impact of the causeway will be could make a lot of money, or at least not lose a lot," said one banker. Saudi influence and presence will clearly increase as they take advantage of the somewhat more liberal atmosphere of the island, but the most important change will be through the movement of people, not goods. Mr Yusuf Shirawi, the Development and Industry Minister, says he expects Bahrainis will go to work in Saudi Arabia, and Bahraini developers are optimistic that Saudis will buy villas on the island.

The changes brought about by the causeway may not prove as dramatic as some imagine, however, and they are, in any case, a reinforcement of the existing trend for Saudi influence to increase on GCC members.

The desire for powerful allies is also strong in the case of Bahrain's rulers because of the sectarian division on the island. The majority of the population are Shiah Moslems while the Khalifah ruling family is Sunni. In December 1981 an armed conspiracy against the Government was broken up, and internal security has been tightened in the years since. There were some further arrests this year.

Too much can be made of these events. Bahrain, like most of the oil states, is largely a caste society with the majority of the labour force drawn from the expatriate communities. These are not of the same size as in Abu Dhabi or Dubai, but their presence ensures that the real social and political dichotomy on the island is between Bahrainis and non-Bahrainis and is not along sectarian lines.

Much of the discussion of the chances of the Iranian revolution spreading to the smaller oil states ignores the way in which these societies on the western side of the Gulf wholly differ from Iran, and these differences are increasing. There is a vast economic and social gulf between the condition of a Shiah Moslem in the slums of south Tehran and the Shiah in the villages around Manama.

Nevertheless, Bahrain, along with the rest of the GCC has an acute sense of its own vulnerability as Iran secures itself as the great power of the Gulf. It recognises that there is no way that this tide can be reversed, and it lives in Tehran's shadow, but so far its worst fears have not been realised.

Generous friends keep growth high . . .

Economy

KATHY EVANS

BAHRAIN'S ECONOMY has come through the challenge presented by the decline in oil prices, if not entirely unscathed, then at least with its basic stability maintained.

The generally good performance of the economy has been due to a number of factors. The oil sector, though responsible for 75 per cent of Government revenue, accounts for only 25 per cent of GDP. Aid, mainly from Saudi Arabia, has been maintained at high levels, and the authorities, too, have been quick to rephase major projects.

Growth has in consequence been maintained over the last two years at a steady rate of around 6 per cent a year, despite a loss of some $8m to $10m a month in revenues following the Opec realignment of prices last year. Total government revenue, helped largely by the contributions of aid and non-oil income, fell from an estimated BD 646m to 607m a comparatively modest 6 per cent fall.

The approach of the authorities—which has generally found favour with Bahrain's merchant community—has been to stretch out major projects over longer periods rather than to cancel. The 1982-85 development plan, for instance, has been extended to 1987. Capital expenditure envisaged during the year was cut from BD 325m to BD 274m as projects were postponed, and the social services ministries have suffered a slight trimming in budgets.

The budget included, however, items such as a heavy oil conversion plant which is now being given relatively low priority. Petrol prices were also doubled during the year, easing the BD 17m bill in subsidies previously being paid, and consumers have also had to pay more for their water.

Each ministry had, in fact, only been able to spend about 65 per cent of their allocations each year anyway. The cutbacks did not therefore have as marked an effect on business activity generated by the government as might have been expected. (By the end of the plan, the government hopes to be able to improve this ratio to 80 per cent).

This underspending by the government enabled Bahrain to emerge out of 1983 with a small surplus. Budget surpluses had been dwindling for the previous two years. In 1981 it stood at BD 160m and a year later it was half that.

The Bahrain economy is, nevertheless, very much dependent on the rest of the G.C.C. The island receives substantial amounts of aid from Saudi Arabia, Kuwait and Abu Dhabi, directly into the budget through grants and loans, or to particular projects.

In the case of Saudi Arabia, the most important form of assistance comes from the maintenance of production levels of the Abu Safa field, which it shares with Bahrain. Output has been kept at 110-120,000 b/d, despite cutbacks which have had to be absorbed at other fields. According to the budgets for 1984 and 1985 Abu Safa will continue to be a steady source of revenue, amounting to BD 209m yearly.

Ambitious

Direct aid is expected to run to BD 56m this year and next. On top of this, substantial assistance was voted at the last heads of state meeting in Doha towards improving Bahrain's defence facilities. Bahrain is sharing a U.S.$1bn defence fund set up by the council with Oman, though its own share has not been revealed.

In addition to this help Saudi Arabia is also footing the bill for the massive desalination plant at Al Dur, and Abu Dhabi is paying for the water plant nearing completion in Sitra. The Bahrain-Saudi causeway is also being entirely paid for by the ministry of finance in Riyadh. Kuwait, for its part, is financing an ambitious school building programme on the island.

Government revenues in 1984 are projected to total BD 545m of which oil revenues will account for BD 370m. Of this, only BD 127m will be coming from revenues from Bahrain's own oil fields. With the field facing exhaustion in 20 years' time, this level will dwindle gradually. (The 1985 figures show a drop to BD 118m.)

The island's refinery suffered losses at the end of last year, but government economists say it is picking up slightly this year. Despite a depressing world products market, Bahrain opted for higher production throughput in order to lower the fixed costs on each barrel produced. With some processing contracts, the refinery was able to run at full capacity of 250,000 b/d.

The aluminium plant, Alba, had a slightly better year, ending up with a $30m profit at the end of 1983, and a 30 per cent increase in sales.

Government officials are reluctant to discuss the returns they have been getting on the massive investments made in industry. They do stress industry's importance in providing employment and upgrading local skills. Industry is, however, going to have to play a greater role in providing revenues in future, if Bahrain is to avoid the necessity of adjusting its expectations in the light of declining output from its own field.

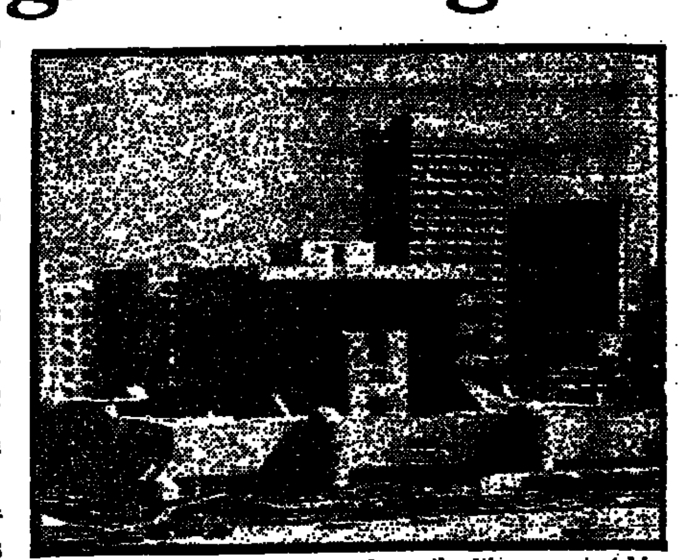
The industrial sector as a percentage of the GDP actually dropped from 13.7 per cent in 1981 to 12.3 per cent in 1982, but will increase again as the Gulf aluminium rolling mill and petrochemical and steel plants come into operation. All these projects have been financed with participations from Bahrain's GCC partners.

The next two years will see steady increases in both capital and current expenditures. The cost of the development programme will rise from BD 201m to BD 210m, while recurrent expenditure will go up from BD 343m to BD 363m.

The overall increase in the budget from BD 545m to BD 575m will on current plans be largely funded through development bonds and Bahrain officials say they have no intention—yet—of increasing medical or electricity costs unlike other Gulf states. Water costs have already edged up slightly, and foodstuffs subsidies will remain intact, officials say. They warn, however, that apart from food subsidies, this policy is subject to regular review.

PUBLIC EXPENDITURE ESTIMATES (in BDm)

	1984	1985
Manpower costs	201	21
Services costs	34	38
Consumer goods costs	32	35
Capital goods costs	12	12
Maintenance costs	15	16
Transferred payments	38	41
Accrued interest and loan repayment	10	10
Total of recurrent expenditure	343	364
Construction expenditure (development programme)	202	211
Total of state budget expenditure	545	575



Rather than cancel projects, the authorities are stretching them out over longer periods. Above: the Diplomatic City in Manama, large sections of which are still under construction.

GROSS DOMESTIC PRODUCT in BDM (at current prices)

Sectors	1980	1981	1982
Agriculture and Fishing	14.9	18.2	13.9
Mining and Quarrying	434.4	433.8	406.7
Manufacturing	209.9	223.7	187.8
Electricity and Water	12.1	15.3	18.9
Construction	97.9	113.6	135.7
Transport	112.4	137.4	154.6
Trade, Hotels and Restaurant	153.1	156.7	196.7
Services	74.3	90.4	160.3
Banks and Insurance	141.8	211.3	239.4
Real Estate	67.2	88.2	103.3
Government	94.6	99.9	117.8
Gross Domestic Products	1,422.8	1,697.8	1,760.1
Annual Growth Rates %	39.7	13.8	3.3

. . . but testing time ahead for business

The next 18 months in Bahrain will see feverish preparations for the next major development to affect the economy—the opening of the Bahrain-Saudi causeway.

Already, local merchants have embarked on a building spree, and apartment / office blocks and residential compounds are springing up all over the island. Land prices near to the proposed motorway which will link with the causeway have tripled in the last three years, and local land brokers are predicting that there will be no let up in the increases in land values.

Surprisingly, it has been the Kuwaitis, rather than the Saudis, who have dominated land sales, but local brokers say it is just a matter of time before their immediate neighbours begin showing an interest in buying weekend homes on the island.

Most of these developments have been financed out of cash, although bank credit for construction is already accounting for some 30 per cent of the total. This spending spree on land developments is taking place against a backdrop generally of falling rents, but most merchants are optimistic that the causeway, when opened, will take up the slack.

The slack is, in fact, considerable. Local estate agents estimate that in the next three years some 150,000 sq metres of office space will be on the market, almost doubling the current supply. Even if the annual take-up of 20,000 sq metres is maintained, this will leave enough residual supply for four to five years. In other words, Bahrain property developers are counting on a boom to be generated by the causeway.

Some agents suggest that a decline in rents has its brighter side, for house rents had reached the levels of Mayfair in London. Bahrain rentals are still well above Saudi prices—in the case of an office, it costs 100 per cent more to rent a square metre in Bahrain than in Dammam.

The Bahraini business community is hoping for further benefits from the causeway other than to local hoteliers and landlords. The causeway will in many ways merge the two markets into one, though there is no clear-cut view about which community is going to benefit the most. Much will depend on GCC policy on customs tarrifs between member states, which according to council resolutions should be removed entirely.

Yet Bahraini merchants fear that lower capital costs, volume discounts and larger government subsidies will mean that Saudi consumer goods will cotinue to be cheaper, and therefore many Bahrainis will be tempted to drive over to the mainland to buy expensive consumer items.

Profit margins will, therefore, have to be trimmed in Bahrain, and business will have to adapt to a more competitive climate. Some observers are already suggesting that the small fry in the merchant community will continue to get smaller, while those large Bahrain companies with Saudi connections, will continue to expand even more quickly. Already, some of the major trading families in Bahrain say that 85 per cent of their business is coming from the mainland.

This optimistic view of commercial activity in the period running up to the opening of the causeway contracts with a waning in enthusiasm about Bahrain among the banking community. Many of the offshore banks in Bahrain were set up with an operational size suited to boom conditions, and now, with the restrictions in lending introduced by the Saudi authorities, staffing levels look swollen.

Adjustment

There have not been any wholesale departures from Bahrain by the banks, but all will have to adjust. Local financiers believe that some of the latecomers and the smaller private sector banks may find the going tough, particularly if their management is not up to the challenge of adjustment and of creating new areas of activity. Nevertheless, to many banks, Bahrain functions as a tax haven for booking loans.

Bahraini officials say they do not expect any further restrictions in OBU activity from the Saudis in future. However, each banking community in the Gulf is upgrading its services to customers and becoming more sophisticated.

As the economies in the region begin to stabilise rather than boom, each community is likely to try to protect its own market from outsiders. Bahraini officials are hoping that the specially-commissioned IMF report on the subject will demonstrate the complementary, rather than competitive role, that the island's offshore banking community plays in the region.

Like other Gulf centres, Bahrain is also taking the first careful steps towards the establishment of its own stock exchange. With the benefit of hindsight gained from Kuwait's own stock market disaster on the Manakh exchange, tighter rules are now being drawn up.

At present, stock prices are at rock bottom levels, and if the Gulf war continues, confidence is likely to return only very gradually. Others believe that the current low prices will enable the small investors to enter the market, for until the present downturn, the stock market was strictly "a rich man's game."

Stock prices have remained untouched by the dividends of 10 to 40 per cent declared for last year by Bahrain local companies. The exempt companies, which would form the nucleus of a Gulf exchange, continue to struggle out of the morass of the Manakh disaster. Many are still burdened by post-dated cheques, the value of which is still largely unknown.

Patrick Cockburn profiles Hamad new town

Spreading the population burden

DRIVING south west from Manama, the low white houses of the new town of Hamad, which will ultimately have a population of 60,000, do not stand out from the low hills around it.

Hamad itself looks rather bleak with no grass or trees, not even the headless and dying palms which are typical of the scenery in the north of Bahrain. Roads are still being built but much of the housing construction is complete and soon the first families will start to move into the town.

Medinat Hamad is being built to alleviate an acute lack of accommodation on the island. At present there is a five year waiting list for Bahrainis looking for a house and all over the north of the island construction work is going on.

Loans

The development of a whole new town, begun in 1972, is part of a process by which the centre of gravity of the island's 350,000 population is shifting south of Manama. Five major neighbourhoods have been built or are planned.

None of the new housing is for the expatriate population. It will be entirely given over to the 240,000 Bahrainis, one-third of whom have received houses, flats, loans or land from the Ministry of Housing, says the Ministry's Under Secretary Dr Abdel Latif Kanoo.

Established in 1975, the Ministry is devoting almost all its funds to construction of Hamad town, the total budget for which is BD 260m. Capital spending this year will be BD 50m.

By 1987 the town should have 12,000 houses, some 8,000 of which will be built by the Ministry and the remainder on land provided to prospective occupiers. This will do something to relieve the pressure for more houses but the Bahraini population of the island is increasing by about 3 per cent a year. In addition the extended families living together are tending to break down into nuclear family groups. Some of these have been housed in low blocks of flats but these are now full.

All this has provided steady work for 60 local construction and supply companies. The private sector is also expected to ensure that local shops and other facilities are established, without which the area still has the air of a ghost town.

But the island of Bahrain is so small that when people have moved into Hamad they will still be only 15 minutes from Manama. The town will also be close to the new Gulf University and the industries to the east. The desirability of living on the west side of the island may also increase once the causeway to Saudi Arabia is completed in 1986.

'Every day that passes is another day without the war spilling over'

BAHRAIN is more dependent on its neighbours than the other oil states on the western side of the Gulf. It shares their problems stemming from small size and limited population, but without the financial resources of Abu Dhabi or Qatar.

The island therefore has a great need for regional co-operation and this has influenced its foreign policy and defence attitude.

In this respect the outbreak of the Iran-Iraq war in 1980 has been something of a mixed blessing. It has underlined the vulnerability of Bahrain but also strengthened the solidarity of the smaller Arab oil states.

All over the island there are visible signs of neighbours' largesse. The Gulf Co-operation Council and other pan-Arab institutions have all seen Bahrain as the obvious site for the construction of industries and the headquarters for pan-Arab institutions.

Its defence forces are also receiving a massive transfusion of financial assistance to allow them to expand and buy equipment.

The problem is that however much money is spent on strengthening the defences of the GCC states their combined populations remain only a third of Iran's. They will never be able to withstand a full-scale attack if unsupported by outside powers.

Bahrain is particularly sensitive to the Iranian threat because some 60 per cent of its population is Shiah Moslem and only about 40 per cent Sunni.

But, despite the island's vulnerability, the potential threat is less immediate than might at first appear. The Iranians are concentrating all their efforts on the war with Iraq and while they do so the GCC states have plenty of room to manoeuvre.

The very foundation of the GCC in 1981 came about not only because of the threat from Khoemeini but because Iraq was no longer in a position to veto the establishment of the new grouping.

In any event there is not much Bahrain can do except wait and see what happens on the battlefront around Basra and to the north. "Every day that passes is another day without the war spilling over," says Mr Tariq al-Moayyed, the Bahraini Information Minister. "I don't think there is an overall escalation," he adds when asked about the heavy fighting earlier this year.

With only a total Bahraini population of 240,000 and an army of 2,700 there is clearly a limit to the amount of resistance which Bahrain or its neighbours can put up to any outside attack. The GCC plan is to ensure that a tripwire is established. It will make sure that there is "substantial rather than negligible resistance," says Mr al-Moayyed.

Foreign policy

PATRICK COCKBURN

The ultimate sanction for the GCC is U.S. intervention or its threat. On this prospect Bahrain is more sympathetic to the U.S. than any other members of the GCC except Oman. "We will co-operate with those countries that seek help to see that the Strait of Hormuz remains open"—and this includes the U.S., says Sheikh Mohammed bin Mubarrak al-Kalifa, the Bahraini foreign minister.

The U.S. already has docking facilities in Bahrain, where a small flotilla is based. The U.S. Army Corps of Engineers is arranging for the design contract for a major airbase to be built in the south of the island which, it is reported, will have the longest runway in the Gulf. In an emergency this could clearly be used by any U.S. intervention force as well as other Gulf air forces.

At present Bahrain has no fixed-wing aircraft though the well-equipped 2,500-strong paramilitary police have seven helicopters. Bahraini pilots are receiving training in Saudi Arabia.

The establishment of a small interceptor air force ran into trouble when Bahrain became involved in a complicated sales effort by Northrop to sell the Tigershark or F-20. This was a short range air defence fighter specially designed by Northrop, though based on the F-5, to be sold outside the U.S.

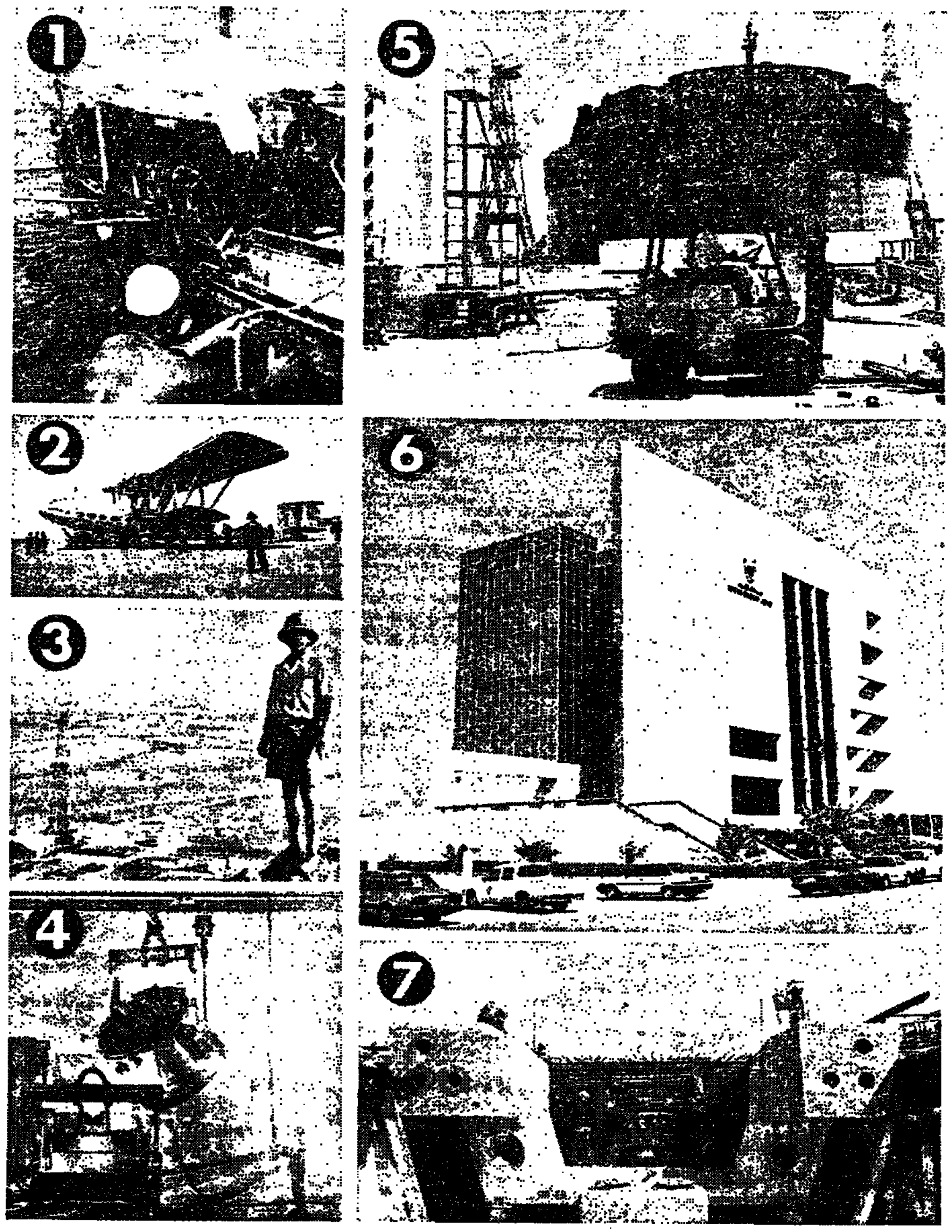
Although air experts say it is a good aircraft Northrop found no buyers apart from Bahrain, making a production run less likely. Lack of orders has also inflated the price of the aircraft. At the end of 1982 Bahrain decided against buying the four aircraft and two trainers they had agreed to buy. Bahrain is said to have asked for the more advanced F-15 made by McDonnell-Douglas.

The cost of these new armaments and military facilities will total $700m over the next three years, but the budget for defence remains at about BD 50m this year. Almost all the funding will come from the rest of the GCC or directly from its member states. Kuwait, for instance, has paid for new Fursen patrol craft.

The GCC as a whole established a $1bn fund last year to finance arms purchases by Bahrain and Oman. The Omanis balked at some proposals that would have given the GCC headquarters substantive control of procurement. Bahrain is less sensitive. Most procurement decisions for the Defence Force will be reached in Riyadh—the GCC headquarters—in future say diplomats in Manama.

In political terms the threat at home and abroad stemming from the Iranian revolution has made Bahrain more reliant on Saudi Arabia and therefore on the U.S. as the Saudis' chief protector. This has somewhat reduced British influence on the island, though it has never been as strong as it is in Oman.

This shift towards the Saudis and the U.S. is likely to continue, but there is a limit to the defences which can be created however much money is spent. Populations are too small and the level of skills too low. The future of the Gulf is in any event likely to be decided by the battles now being fought by Iran and Iraq, on the outcome of which Bahrain and its neighbours have little influence.



Seven stages in the Island's evolution

Stage 1: pearl diving, early twentieth century. In the pre-industrial era pearls were one of the main sources of income and as much as half the male working population was involved in finding and marketing them.

Stage 2: airstrip in operation early 1930s, enabling the island to build on its reputation as a communications centre for the region. The photograph shows an Imperial Airways' Hannibal, preparing for take-off.

Stage 3: oil production begins, 1932, with exports following two years later. Reserves are limited but today oil constitutes 25 per cent of GDP. The photograph shows American Edward A. Skinner, who arrived in 1931 to drill the first well, standing beside the fruits of his labour.

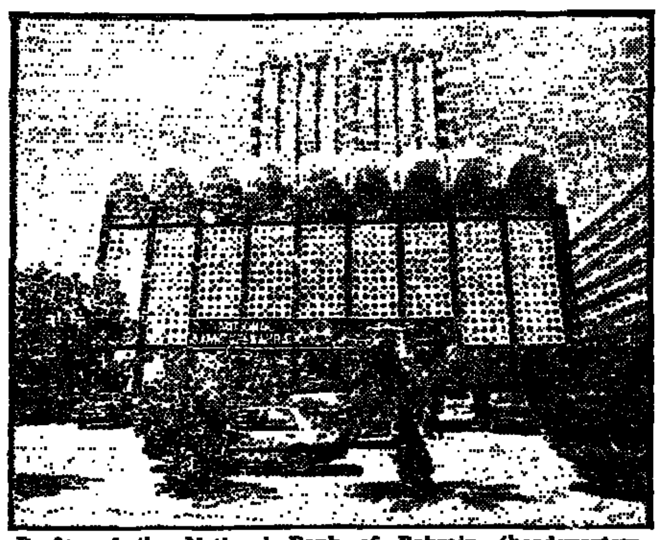
Stage 4: aluminium production begins, 1971, Bahrain's first major industrial venture other than oil.

Stage 5: the Arab Shipbuilding and Repair Yard opens, 1977. Built by Bahrain and six other Oapec members, it strengthens the island's position as a regional centre.

Stage 6: development as financial centre, mid-1970s onwards. The Bahrain Monetary Agency, housed in the building pictured, supervises the sector, which now includes 77 offshore banking units.

Stage 7: the causeway to Saudi Arabia, scheduled to be completed late next year.

Photograph 1 by W. G. Wilcox, and 5, 6 and 7 by Terry Kirk. Photographs 2 and 3 by courtesy of BAPCO, 4 by courtesy of ALBA.



Profits of the National Bank of Bahrain (headquarters above) were $33.1m last year, $3.1m up on those of 1982.

PROFILE: BANKERS' TRAINING CENTRE

Getting into full swing

THE AVAILABILITY of qualified staff has always been an inhibiting factor on the growth of offshore banking centres, and one way Bahrain is trying to secure a long term future as a banking centre is by training bankers as well as encouraging the foundation of banks.

Its Bankers Training Centre was founded three years ago and is now in full swing. During the last academic year 943 participants took part in over 55 courses. About 90 per cent of them were Bahrainis and a third were women.

By far the most important part of its activities is the provision of introductory courses in banking for new entrants to the profession. Last year nearly half its students were enrolled in such courses, normally on a day release basis.

The courses cover subjects such as basic bookkeeping, accounting computer fundamentals and programming. But there are also practical courses in bank operations such as letters of credit and foreign exchange as well as financial analysis and special seminars for senior management.

The centre is funded by the banking community itself through a 1 per cent payroll levy and the banking community also plays an important part in its administration. Mr Abdulla Saif, Governor of the Bahrain Monetary Agency, is its chairman, while its director, Mr Albert Woodhouse, is a commercial banker with a long experience of training who is on secondment from Chase Manhattan Bank in New York.

Two instructors are also seconded from outside—one from Barclays Bank and the other from Arthur Andersen, the accountancy firm.

The Bankers Training Centre contributes to the general improvement in banking skills in the Gulf, both through admitting other Gulf nationals to its courses and through co-operation with other regional training efforts.

Another spin-off which is gaining importance is the way in which it helps banks to become familiar with new techniques developed in other markets. Last month, for example, it sponsored a special series of courses on Financial Futures in conjunction with the London International Financial Futures Exchange (Liffe).

P.M.

Economic and banking difficulties worldwide, increased competition and regulation have checked the growth of the financial sector. New and more sophisticated services are emerging, however

Waiting for the Saudis' next step

Offshore banks

PETER MONTAGNON

RECORD TOTAL assets at the end of last year cannot mask the fact that hard times have hit the 75 offshore banking units (OBUs) operating from Bahrain.

A combination of regional economic downturn and worldwide international banking malaise has called in question the future of this once-thriving banking centre; and while many local bankers are now inclined to excessive pessimism, the offshore banking industry does seem likely to face several years of consolidation as it moves towards a new and broader base.

After nearly a decade of exponential growth total assets of the offshore banks have now stopped rising strongly. Already at the end of 1982, growth had faltered. By last April the total figure was only $55.6bn compared with a peak of $61.1bn in August 1982.

Since then, the assets have grown again, to close 1983 at a record $62.7bn, but much of this was window-dressing and in January they fell back to $59bn.

In retrospect it is easy to claim that such a break in the growth pattern merely represents a natural maturing of the banking centre. Similar developments have been observed elsewhere; in Luxembourg, for example, where the Banking Commissioner, Dr Pierre Jaans, claims that a natural "cruising altitude" has now been reached.

As with Luxembourg, Bahrain has now managed to attract most of the big names in international banking, and with 75 offshore units in operation there may be no room for many, or any more. As new arrivals cease to flood in, growth in assets naturally comes to a halt.

But in Bahrain's case this process has been complicated by a number of outside factors. The most far-reaching of these is the growing uncertainty about Saudi Arabia's attitude to this banking market on its doorstep.

Project lending into Saudi Arabia has been one of the mainstays of many OBUs, but with the drop in the oil price and cuts in Saudi spending such loan opportunities have now diminished.

At the same time Saudi Arabia has been taking steps to develop its own banking market in a way that some bankers fear could be detrimental to business in Bahrain.

Witholding tax on interest paid by Saudi borrowers to foreign lenders has now begun to be enforced, albeit patchily. Banks leading Saudi Ryal syndications have to seek the permission of the Saudi Arabian Monetary Authority (SAMA) before inviting foreign lenders in.

In February, SAMA began to mop up excess liquidity in the *Kingdom by calling for special* 90-day deposits from local commercial banks. The amounts involved are not large—about SR 400m a week is now being absorbed — but bankers in Bahrain fear that these steps will lead first to a drop in Ryal liquidity on the Bahrain market and second to a curb on their opportunities for lending into the Kingdom.

Already lending in regional currency (mostly Ryals) has dropped as a proportion of total assets of OBUs. In December last year it was only 17.2 per cent, compared with 18.3 per cent a year before.

True, there was a slight increase last year in the proportion of regional currency deposits to total liabilities (from 22.5 per cent to 23.9 per cent), but one of the clearly stated aims of Saudi Arabia is to limit the internationalisation of its currency.

This would throw Bahrain very much back at the mercy of the broader international market. But here the downturn in Saudi business has come at a most unfortunate time. It is probably no coincidence that the total assets of OBUs first started to fall in August 1982—the very month the Mexican debt crisis exploded on an unsuspecting banking world.

Since then the international interbank money market has passed through a period of severe contraction and consolidation as the money markets began to apply the concept of country risk more rigorously than before.

Despite its well-established record as a banking centre, Bahrain does not come out of any country risk examination unscathed. Its Monetary Agency has a relatively good reputation for the quality of its supervision, but it cannot act as a lender of last resort to any bank that happens to get in trouble. Moreover, international banks tend to look at the Middle East as a single region.

The war between Iran and Iraq and the collapse of the Kuwait Stock Exchange in 1982 have not helped to boost Bahrain's image as a risk-free haven for deposits. For some banks funding is now harder than before.

The result is a new and growing fashion for what might loosely be termed investment banking business. Starved of opportunities to lend, banks are now hoping to use their skills to earn fees by arranging deals. Says Mr K. J. A. Katchadurian, general manager of Bahrain Middle East Bank, "One answer is giving advice on how to manage companies better, how to merge them and in some instances how to secure their future."

His bank was recently asked to act as adviser on the proposed merger between two United Arab Emirates companies, Fujairah Cement Industries and Emirates Clinker Industries, which is believed to be one of the first transactions of its kind in the region.

Other new forms of banking are being tried in Bahrain. United Gulf Bank is developing portfolio management business, and Arabian Investment Banking Corporation (Investcorp) is now seeking out international investment opportunities for local investors.

The idea, explains its Chief Executive, Mr Nemir Kirdar, is to have an Arab-owned institution that will offer secure long-term investments to Gulf investors, many of whom have had their fingers burned internationally or on the unofficial Kuwait Stock Exchange.

"There is a large gap in direct Arab financial intermediation," adds Mr Henry Azzam, Economist at United Gulf Bank. "Bahrain's OBUs could play an important role in bridging this gap and achieving a better financial equilibrium in the region."

He says he would like to see Bahrain develop as an international bond centre, with bonds listed on its soon-to-be-founded stock exchange in much the same way as Luxembourg acts as a listing centre for Eurobonds in Europe.

But achieving the transformation from wholesale lending to investment banking is no easy matter. Regional currencies are, on the whole, too small to sustain their own bond markets and international bond markets tend to be driven from other centres.

In the Eurobond market, for example, Bahrain could not realistically hope to be much more than an apppendage on European centres, such as London, although there is increasing local trading of Floating Rate Notes and Bahrain-based banks do occasionally appear as co-managers of individual issues.

Besides, investment banking requires a greater use of qualified staff, who are expensive in a place like Bahrain. The result is that while these new activities might eventually add something to Bahrain's range of financial services they can never be expected to replace *wholesale banking* as the banks' primary source of income.

This might be a deeply depressing conclusion for those who have staked their future on Bahrain's prospects as an international financial centre. But such pessimism is easily overdone after a few bad years, for the fact remains that Bahrain is not about to die on its feet as a banking centre.

Opportunities in Saudi Arabia are fewer than they were, but they are still there, and the Saudi banking system itself cannot be expected to develop the capabilities to exploit them overnight.

Meanwhile, for the foreign banks in Bahrain there are still opportunities in correspondent banking with Saudi institutions, though here the competition is getting very tough.

Saudi Arabia has indicated that it wants to preserve Bahrain's role as a regional financial centre. The offshore banks are a source of strength for the region "and none of us wishes to disturb their presence here." Mr Mohamad Abal Khail, Saudi Finance Minister, told a banking conference in Bahrain last winter.

But actual growth prospects for Bahrain now seem limited unless a new round of oil prices produces a new burst of construction projects in Saudi Arabia or the Gulf war ends bringing new opportunities to lend for reconstruction in Iraq.

Meanwhile, though few if any foreign banks will leave, most are expected quietly to scale down their operations. Faced with a continuing loan famine, some of the smaller local banks might also have to be absorbed by their larger brethren as the banking community becomes leaner and more sober-minded.

PERFORMANCE OF MAJOR BAHRAIN-BASED BANKS

1983 (with 1982 results in brackets)

1. DOLLAR-BASED BANKS (in U.S.$m)	Equity base	Return on av. equity %	Assets excl. contras	Return on av. assets	Loans	Ordinary profit
Arab Banking Corporation	1,028 (966)	10.77 (12.36)	8,762 (7,892)	1.29 (1.81)	3,358 (2,558)	107.4 (114.6)
Gulf International Bank	447 (413)	13.37 (15.70)	7,437 (6,161)	0.85 (0.95)	4,038 (3,344)	57.5 (56.8)
Arlabank International	226 (184)	8.44 (11.06)	1,723 (2,181)	1.20‡ (1.14)‡	1,238 (1,246)	17.3 (18.6)
Al-Baab	131 (96)	16.69 (22.54)	1,464 (1,387)	1.57‡ (1.51)‡	827 (824)	18.9 (18.2)
Gulf Riyad Bank	57* (53)*	13.78† (20.76)†	1,269 (1,243)	0.32 (0.38)	523 (474)	4.1 (4.7)
United Gulf Bank	252 (240)	10.00 (20.00)	1,289 (1,013)	2.00 (3.50)	475 (357)	24.2 (35.3)
2. DINAR-BASED BANKS (in U.S.$m equivalent)						
Bank of Bahrain and Kuwait	*240* (225)	*18.25* (21.60)	*2,307* (2,266)	*1.92* (1.81)	*1,234* (1,189)	*43.8* (34.6)
National Bank of Bahrain	*149* (140)	23.11 (25.47)	*1,492* (1,185)	2.49 (2.74)	586 (480)	33.1 (30.0)

* Includes $25m subordinated loan on which interest is paid at market rates.
† Excludes subordinated loan. ‡ These ratios supplied by the bank on the basis of daily balances.

NB. All results are *consolidated*

Table compiled by Mary Frings

Monetary agency moves to stimulate competition

Lending rates under pressure

Domestic banks

PETER MONTAGNON

ON THE surface it seemed a rather innocuous move when the Bahrain Monetary Agency wrote to the state's domestic banks at the end of March asking them to start publishing their best lending rates.

Such publication is a routine matter for banks in most industrial countries. But in Bahrain the request provoked a storm of controversy which says much about the way banking business is done in this tiny state.

The monetary agency decided to ask banks to publish their rates to stimulate competition among banks and in an effort to nudge interest rates gently lower. After taking a close look at the books of the state's 19 commercial banks it decided that their profit margins were too high.

In this they differ sharply from the 75 Offshore Banking Units whose profitability has been severely hit by the downturn in Saudi Arabia and the general malaise in international banking.

"There have been several complaints that banks tended to overcharge their clients," says Mr Abdulla Saif, Governor of the monetary agency. Although the agency cannot dictate the level of margins that a bank applies, it can make the public more aware of the possibility of negotiating a better rate. "Hopefully, lending rates will fall for good credit risks," he adds.

At the same time the agency hopes that publication of prime lending rates will encourage banks to differentiate more fairly between their customers. Put bluntly, they will have to explain to customers who are being charged several points over prime why they are regarded as a bad risk. That in turn should lead them to lend less in the form of a blanket overdraft and more for specifically productive economic purposes.

But to judge by the reactions of senior commercial bankers in Bahrain the monetary agency is trying to drive a coach and horses through the way in which banking business is traditionally carried out in this small nation state.

"The business culture is different here," said Mr Gregory Krikorian, General Manager of Al-Ahli Commercial Bank. "You can't push a modern business culture overnight into a society that is not readily adaptable."

Among problems that bankers foresee when rates start to be published this month is a wholesale switching of clients from one bank to another as they seek out better rates. This will inevitably lead to paring of margins as loan rates are cut for some borrowers, but the competition will not necessarily be fair.

National Bank of Bahrain, for example, has a guaranteed source of cheap funds in the form of deposits by the Government. Other banks, particularly the smaller ones with a limited branch network, have to rely heavily on the expensive wholesale money market for their deposits, so they have less scope for reducing their lending rates and might lose customers when prime rates start to be published.

Besides, says one senior banker, high margins are needed in a place like Bahrain where the cost of doing business is also high. Even the markup on desk-top calculators can be several hundred per cent over their cost in New York.

Beyond this, the move by the monetary agency also shows up the tight constraints under which it has to operate monetary policy in Bahrain. The total money supply is very small with the broadest measure of M3 standing at only BD 957m at the end of last year.

No currency as tiny as this can float freely, and the Dinar has been effectively pegged to the U.S. dollar at a central rate of 376 fils per unit of U.S. currency since 1979.

Theoretically, this should also mean that interest rates on dinars move in tandem with those on dollars, but the steep increase in U.S. rates in recent years would have wreaked havoc if it had been fully followed through in a domestic economy already vulnerable to the softer oil price.

Ceilings

The monetary agency resists the natural upward drift of local rates by imposing ceilings on the rates that banks can pay on customer deposits. Currently, the maximum is 8.5 per cent on 15-month deposits, although large Certificate of Deposit issues and longer-term deposits can pay more.

Normally this works without any major withdrawals of bank deposits in dinars so long as the deposit rates are little more than 2 per cent below those on dollars, though it does mean that banks have to work hard to attract and keep dinar deposits.

It also means that the monetary agency has little freedom of action when it judges local interest rates too high for the well being of the domestic economy. Theoretically, local liquidity could be increased through higher government sales of foreign currency against dinars which would then be placed in the local banking system.

But the resulting trend to lower rates would be quickly cancelled out through outflow of private funds seeking higher interest remuneration elsewhere.

The monetary agency does routinely offer banks dinar liquidity through swaps of dollars through dinars, but these swaps are carried out at par, which means that the effective cost to the banks is the same as that on borrowing dollars and the interest effect is therefore negligible.

To achieve a reduction in interest rates the monetary agency is therefore forced to try to influence just those on the lending side of banking balance sheets. It has to do this in a market which is relatively unregulated and in which multipurpose overdraft lending tends to predominate.

Because the cost of borrowing dinars is lower than that of borrowing U.S. currency there is also a heavy demand for the limited amount of dinar credit available. By asking banks to publish their prime lending rates, the agency hopes that available credit will be steered to more productive purposes at lower rates without forcing a corresponding reduction in deposit rates. A cut in deposit rates would in any event be totally unworkable at a time when U.S. dollar rates are rising.

The agency may well be right to argue that banks can afford some reduction in their interest margins. Last year the National Bank of Bahrain reported higher profits of $33.1m compared with $30m for 1982.

Although its return on average equity fell slightly to 23.11 per cent and its return on average assets slipped to 2.49 per cent, both figures show that it was doing much better than the Offshore Banking Units.

Among the top five OBUs the best performer in relative terms was Al-Baab with a return on equity of only 16.69 per cent and a return on assets of 1.57 per cent.

Bank of Bahrain and Kuwait, by contrast, had a return on equity of 18.25 per cent and on assets of 1.92 per cent, while return on assets at Al Ahli, the smallest of the big three locally-owned banks was 1.87 per cent.

This year the major commercial banks are also forecasting good results.

BAHRAIN'S DOMESTIC BANKS

(ranked by size of assets on December 31 1983)

In BDm (BD=$2.65)

	Assets	Contras	Advances	Net profit†
National Bank of Bahrain*	354.4	253.5	154.4	12.07
Bank of Bahrain & Kuwait*	390.7	51.7	170.7	8.53
Chartered Bank*	147.3	22.9	75.4	1.48
Al-Ahli Commercial Bank	136.7	38.8	82.6	2.39
British Bank of the ME*	90.6	32.9	56.4	1.97
United Bank Ltd	39.6	10.1	17.8	0.77
Habib Bank Ltd*	31.9	2.1	15.7	0.24
Bank Melli Iran	28.9	0.2	23.6	nil
National Bank of Abu Dhabi*	22.6	3.9	11.7	0.05
Arab Bank Ltd*	22.1	4.4	7.4	0.24
Paribas*	21.9	8.1	15.9	0.15
Grindlays Bank Ltd*	14.9	17.7	9.8	0.19
Bank Saderat Iran*	11.7	0.3	11.2	nil
Algemene Bank Nederland*	11.4	1.9	7.4	0.09
Citibank*	10.9	5.4	6.2	0.46
Rafidain Bank	9.7	2.7	6.8	nil
Banque du Caire	4.6	1.2	2.2	(0.04)
Chase Manhattan Bank*	3.7	36.8	1.6	0.54

* Does not include OBU or overseas branch.

† After provisions for bad and doubtful debts.

Source: Bahrain Monetary Agency. Compiled by Mary Frings

Queue for special status dwindles

Exempt companies

MARY FRINGS

OFFSHORE companies have been eager to set up in Bahrain over the past six years not only because it is a tax haven but because it is a good centre for regional operations—close to the important Saudi market, well served by international airlines and telecommunications, accustomed to foreigners and relatively free of bureaucratic red tape.

For the price of a BD 2,500 (U.S.$6,600) annual registration fee and a minimum capital investment of BD 20,000 (U.S.$53,000), a financially sound and politically acceptable entrepreneur can incorporate an "exempt" trading or service company in Bahrain, with or without local participation. The cost goes up appreciably for insurance and investment companies, and banks, which must also obtain a licence from the Bahrain Monetary Agency. Special regulations govern public shareholding companies, which are limited in number and exclusively Arab-controlled.

The "exemption" is from provisions of the Commercial Companies Law which require majority Bahraini ownership or in the case of foreign branches, local sponsorship. But this privilege carries with it a bar to competing in the domestic market, and any EC wishing to supply goods into Bahrain must do so through an agent.

By the end of 1983, 152 ECs had been incorporated in Bahrain, including 13 public shareholding companies. Within the total are 15 insurance companies, 13 offshore banking units (OBUs) and 11 investment banks, together with management and investment consultants and companies in the business of oilfield and industrial services, contracting, catering, transport and distribution of goods.

Six newcomers were registered in the first quarter of this year: National Catalytic Company (a Kuwaiti-U.S. joint venture with a number of industrial contracts in the UAE); TNT Management Bahrain (part of the Skypak group using Bahrain as a sorting and transhipment centre); Al Baraka Islamic Investment Bank; Stewart Wrightson M.E. (a subsidiary of the Bermuda-based insurance broking group); Overseas Management Group Holdings (owned by Hani Ahmed Zaki Yamani and a Sudanese partner, for the management of investment and business interests); and Jumbo Shipping M.E. (the subsidiary of a Swiss shipping company).

But the influx seems to be tailing off, and there are no more than three applications pending. Ministry of Commerce officials blame a combination of factors for this, from political instability in the region to the reduced prosperity of Arab oil producers and the collapse of Kuwait's unofficial stock market, the Souq al Manakh, which has hit business throughout the Gulf.

"It is not a healthy environment for investors to take risks," says Mr Ahmed Hubail, the Director of Commercial and Companies Affairs. To avoid frightening potential investors away he favours postponing stricter application of entry and reporting requirements until the economic outlook is more promising.

Mr Hubail says foreign investors do not have a clear picture of the nature and objectives of ECs, but critics argue that the fault lies with the Ministry of Commerce itself, for not having a well-defined policy on the kind of companies it wants to attract and the degree of control it is prepared to exercise.

Despite the prohibition of "brass plate" companies when the EC concept was launched in November 1977, nearly all the Kuwaiti-controlled ECs function effectively from Kuwait.

The failure rate is another cause for concern. At least 16 closed companies have gone into voluntary liquidation, in two cases following trading losses but more frequently because an EC proved to be the wrong vehicle or because there simply was not enough business. There is nothing in the EC regulations to compel applicants to study the market and prepare a long-term business plan or cash-flow forecast. If there had been, Gulf Consolidated Services and Industries (GCSI) might have been deterred from setting up a dozen subsidiaries, of which six are now being wound up, and Jumas Oil Corporation would not have made it to first base.

Jumas was set up to attract venture capital, on the strength of a glossy brochure illustrated with maps of its U.S. oil concessions and two photographs of the same "noddy pump" taken from different angles, but very few facts and figures. Gulf investors were not impressed and the company quietly slipped away from Bahrain leaving its funds on deposit and a few loose ends to be tied up by its auditor.

Whole chapters could be written on the public ECs, starting with the huge stagging operations which led to share issues being hundreds of times oversubscribed and ending with the kind of losses detailed on the accompanying table. The six companies listed all "played the Manakh," while Gulf Union Insurance and Arab International Insurance (which have still to report) were share-dealers long before they got to grips with their stated objective of insurance underwriting, and are also expected to come out with negative results.

Al Jazira Contracting and Investment Company is a special case, because its problems also stem from an unhappy involvement with the Abu Ghraib irrigation project in Iraq, on which the company declared a US$19m loss in 1983. The auditors' report carries no fewer than four qualifications and the company's net worth (total shareholders equity) now stands at only 54 per cent of its paid-in capital of U.S.$74m. A further loss of U.S.$22m this year would make it a candidate for liquidation, with only 25 per cent of its capital intact.

The Bahraini-Kuwaiti Investment Group (BKIG) is the only one of the "Manakh players" to have been dignified with the award of an investment banking licence, although it appears to have no management structure, no current business except collecting on post-dated cheques, and no capital deposited in Bahrain.

BKIG has unburdened itself of a U.S.$200m syndicated loan by liquidating the capital deposit against which the loan was secured. A special first quarter report reflecting this new situation quotes the written-down value of assets at U.S.$161m, of which U.S.$159m is in a Kuwaiti investment portfolio comprising Kuwaiti and Gulf shares and post-dated cheques.

Although settlements have been agreed for U.S.$124m, payments will be staggered over the next two years and the company's current assets amount to no more than U.S.$2m.

The five public ECs which have not so far been mentioned are fortunately in better shape, although Bahrain Middle East Bank (BMB) had some initial problems to overcome and Bahrain International Bank (BIB) seems to be still wrestling with them.

Investcorp steered well clear of the Manakh and reported a US$10.2m profit for its first 18 months of operation. United Gulf Bank had already established a profitable track record when it went public in July 1982, and has since increased its strength. Meanwhile Arab Iron and Steel Company has made good progress on its US$300m pelletising plant, for commissioning in December this year.

The rise and fall of Kuwait-controlled public offshore investment companies

(financial figures in U.S.$m)

Public issue	X over subscribed	Company	Profit (loss) 1981	1982	1983	Net worth 1982	1983
Nov 78	4	Al-Jazira Contracting & Investment Co.	6.4	2.3	(38.5)	68	40
Apr 79	1½	Arab International Development Co.	2.1	7.6	(10.0)	35	26
May 79	106	Pearl Investment Co.	35.0	29.8	(23.8)	183	158
Oct 79	1,262	Gulf Investment Co.	63.9	40.9	(56.9)	380	304
Nov 80	281	Gulf Consolidated Services & Industries Co. (GCSI)	24.4	3.0	(31.6)	162	131
Feb 82	348	Bahraini Kuwaiti Investment Group	—	42.2	(30.7)	192	161

Table compiled by Mary Frings

Help for the young and fit as well as the old and infirm

The state pension fund

PETER MONTAGNON

SOCIAL SECURITY is a relatively new concept to Bahrain. Legislation introducing a social insurance system was only enacted in 1976, and because the Government insisted that the state pension scheme be self-funding the first pensions will not be paid out for another two years. There is no unemployment insurance, basically because the Government believes there is no unemployment in Bahrain.

The state pension scheme, which is run by the General Organisation for Social Insurance (GOSI), now embraces workers in all companies employing more than 10 people. Employees pay 7 per cent of their monthly salary and employers contribute a further 11 per cent. The scheme only applies to Bahrainis, but all workers including expatriates are covered against accidents at work. For this employers contribute a further 3 per cent of their payroll.

About 100,000 people are covered by the scheme but only just over 20,000 are Bahrainis who will eventually be entitled to pensions. The rest are expatriate workers who are only covered against industrial accident. Since the scheme started in 1976 GOSI has amassed nearly BD 100m in contributions.

But it is a rare animal among state-run social insurance schemes in that it is not even prospectively in deficit once pensions start to be paid in 1986. Contributors will receive pensions based on the length of their contributions with a maximum of 75 per cent of final salary or BD 350 a month whichever is less (a limit which is likely to be increased soon). For this GOSI calculates that it would need an annual return on its investments of 5½ per cent whereas so far it has obtained a return of over 10 per cent.

GOSI thus has large funds at its disposal which make it a powerful force within the Bahraini economy and give it something of the flavour of a development fund as well as a pension scheme. It likes to think that it already uses its money to help economic growth and development within the country. "This money has been taken from the working people of Bahrain," says Sheikh Isa bin Ibrahim al Khalifa, GOSI director. "We believe that they should have a benefit as well—not just when they are old or sick but now while they are fit."

The busy International Foreign Exchange dealing room of the Gulf International Bank in Manama's Diplomatic Area. See profile below right.

Current GOSI policy is to invest no more than 10 per cent of its assets abroad, although actual placements abroad account for only about half that sum. The rest is invested in Bahrain, basically in real estate, public and private companies, government bonds and bank deposits. As the fund has grown, some of it has been directed towards purposes which would normally be the cause of state intervention in other countries—namely the rescue of ailing industries or companies.

Controversial

This has been one of the more controversial aspects of its operation. Over the years, for example, GOSI has lent to two hotels—the Holiday Inn and the Diplomat—when they were financially squeezed. Both loans have been repaid, but there is a lasting question about whether such investments are suitable for a long-term pension fund.

Sheikh bin Ibrahim argues that this is simply one way of helping the economy of Bahrain to prosper. He adds that GOSI never goes into a rescue operation without a government guarantee or without making its own independent assessment. "We don't go into any company without a feasibility study. We have to check its team here and its organisation."

What GOSI likes to convey is the impression of a benevolent investor with the well-being of the economy at heart. Investments include the construction of shopping and other amenities on low-cost housing estates.

Sheikh bin Ibrahim is now working on the most ambitious project of all. He wants to set up a bank whose profits would be paid out not as a dividend to GOSI but as low-interest loans to individuals with special social needs who cannot afford to raise money from commercial banks.

It remains to be seen whether the Bahrain Monetary Agency will sanction the creation of such a bank in Bahrain's already over-banked market. If it does Sheikh bin Ibrahim believes he will have satisfied two objectives. The first will have been an improvement in social welfare within Bahrain; the second will be the creation of a vehicle that he feels can be used to maximise the return on GOSI's overseas investments. For as the fund grows in size there seems little doubt that these will have to increase.

In fact, while GOSI's investment policy is officially determined by factors such as the economic needs of Bahrain, there is little doubt that one of its problems—and this would be one facing other small countries too—is that there is a shortage of the type of quality investment in Bahrain that would best suit pension funds.

Very few government bonds have been issued and GOSI took up BD 8m of the BD 30m Development Bond issue last year.

Supporters of a better developed capital market in Bahrain could argue that GOSI's need for investments might help create one, though it would always be restricted by the limited availability of dinars.

Looked at one way, GOSI is an investor that has outstripped its own market. Looked at another, it is a welfare fund in the rare position of actually being rich enough to offer unstinting help to the disadvantaged.

Aspiring to a bigger regional role

Insurance market

PETER MONTAGNON

IT IS now exactly 30 years since the first truly local insurance company was formed in Bahrain as a result of a Government imposition of mandatory insurance for taxi drivers. The British insurance companies who were then operating there threatened to drive the taxis off the road with high premiums, and a group of local businessmen formed their own co-operative company to handle taxi insurances. This still exists.

Nowadays, however, insurance is widely seen as an important complement to Bahrain's position as an international banking centre. Insurance would be a natural addition to banking services as well as a contributor to the development of the financial sector through premium investment in local markets.

Although the local insurance market is small—Al Ahlia Insurance Company estimates that in 1982 premium income in the national market was only BD 18.5m—the large market in Saudi Arabia offers considerable opportunities for offshore companies. Total Saudi non-life premium income was estimated in 1980 to be between $800m and $1bn, according to a recent speech by Mr Loay Al-Naqib, Vice-President for Marketing of the Arab Insurance Group.

According to the Bahraini Ministry of Commerce 16 offshore companies are registered in Bahrain to do foreign business, mostly in Saudi Arabia. The Saudi market itself has no national insurance regulations and no national companies, but demand is met by agencies for foreign or mixed companies registered abroad. This means that there is also no regulation of premium levels and competition is very fierce, although the market did improve last year, specialists say.

Recently the Bahraini Ministry of Commerce began collecting information from insurance companies registered in Bahrain with a view to drafting an insurance law that may be introduced this year. At the moment little is known about the activities of some of the offshore companies and the Government feels that Bahrain's image as an insurance centre would be enhanced if it were properly regulated.

Among other things the legislation is likely to impose restrictions on certain forms of investment—for example in share issues in Kuwait's unofficial stock exchange—and it may also place a limit on the number of operators in the domestic market which is generally reckoned to be oversupplied with insurance companies. But its main aproach to regulation will be a passive one through its disclosure requirements. Government appointed inspectors are also expected to visit each insurance company every year.

It remains to be seen whether the introduction of proper regulation will help boost Bahrain's position as a regional centre. To date the development of insurance in Bahrain has lagged well behind that of banking. Kuwait further up the Gulf has a better developed insurance market and is keen to retain its share of regional business.

One important boost to Bahrain's aspirations in the insurance world has, however, been the establishment in Manama of Arab Insurance Group (ARIG), a potentially mammoth reinsurance company owned by the governments of Kuwait, Libya and the United Arab Emirates.

ARIG has an authorised capital of $3bn, and although only $150m of this is paid-up that is still a sizeable sum by any standards for an insurance or reinsurance company.

But ARIG's actual potential is still difficult to gauge four years after its foundation. Last year its premium income was still relatively small at around $90m. Company officials say it is deliberately adopting a cautious approach to development, although outsiders have criticised it for being an over-ambitious project.

ARIG was founded as a world-wide reinsurance company. So far, however, it has found that a relatively large part of its business stems from the Arab world which contributed about one-third of its premium income last year. For foreign insurance companies, meanwhile, there is no doubt that the Arab world presents some peculiarly difficult problems, particularly in the area of project risk.

This is reflected by one new arrival last year, Scanrisk. Scanrisk, which is a joint venture between six leading Scandinavian insurance companies and VBB-SWECO, the Swedish technical consultant, does not actually provide direct insurance but aims to sell knowhow, particularly in loss prevention. It has also begun organising reinsurance capacity for the local market which includes the 10-year guarantee now required on many Middle Eastern construction projects. Its package covers insurance protection from the moment work starts, during the construction period and all property and liability damages for the following 10 years.

This type of sophisticated service is one which could help enhance Bahrain's importance as a regional centre, but, as in banking, one inhibiting factor remains a shortage of qualified personnel. Insurance companies in Bahrain still rely heavily on expatriate labour, but they are now getting together with the Government to consider the formation of an Insurance Institute of Bahrain to extend and improve local expertise. Eventually, the industry hopes to set up a residential College of Insurance in Bahrain to serve the Gulf area as a whole.

PROFILE: SULTAN AL-SUWAYDI, General Manager of Gulf International

Cautious man at the top

THERE IS something of the young conservative about Mr Sultan Al-Suwaydi—not in the party political sense but in a literal one. At 33 he has just been made general manager of Bahrain's second largest bank, Gulf International, but unlike most other young executives he is hardly driven by a desire to sweep the past aside.

In fact he seems happy to continue the basic thrust of the operation he has inherited from Dr Khaled Al-Fayez who was general manager from the time of the bank's foundation in 1975 by the governments of Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

Dr Al-Fayez steered it to its present size—total assets of $7.44bn and a loan portfolio of just over $4bn. He has now moved to Kuwait to run the newly formed Gulf Investment Corporation.

"It's a well run bank," says Mr Al-Suwaydi. "Its future is to grow within the activities of the present with a little more emphasis on services to customers such as portfolio management and corporate finance."

There could be little more striking contrast with Mr Abdulla Saudi, the extrovert Chief Executive of Arab Banking Corporation (ABC), Bahrain's other giant. In March Mr Saudi surprised the banking community with the purchase of Banco Atlantico from the stable of the troubled Spanish Rumasa group.

At a stroke this opened new vistas for Arab Banking—expansion by acquisition and a diversification of its deposit bank in a way that happens to include retail banking.

Up till now ABC has concentrated on wholesale business.

Mr Al-Suwaydi seems much more cautious, even about less fundamental innovations. He is, for example, unimpressed by the opportunities offered by Floating Rate Notes, the latest fad of the international capital markets.

"Syndicated loans will remain a major activity," he says. "What we are going to do in FRNs is what the market and profitability would allow. The FRN market is limited and cannot offer good profitability. The margins have become very slim. There is no substitute for syndicated lending in FRNs."

A graduate in business administration of the U.S. International University in California, Mr Al-Suwaydi is no stranger to the world of banking. He has been a director of Gulf International since 1981, when he was seconded to Abu Dhabi Investment Corporation as General Manager where he restructured the entire organisation. Before that he was involved with the financial and administrative side of the Abu Dhabi Investment Authority.

At Gulf International his cautious approach seems to have the full support of the board. "I think it very sensible to have a thorough understanding of the next move. There is a lot at stake," says its chairman, Mr Abdulla Saif, who is also Governor of the Bahrain Monetary Agency.

P.M.

BAHRAIN 7

Eleven dry holes have been sunk in the past 30 years

Fresh reserves elude drilling programme

AFTER INVESTING more than $20m over the past three years in the search for oil, the Bahrain Government has still to take a decision on whether the seismic evidence justifies an exploratory drilling programme.

Neither the intensive survey of the marine concession area completed in 1982 by Western Geophysical, nor last year's deep onshore survey by France's Compagnie Generale de Geophysique (CGG), seem to indicate a major new field, and the delineation of possible oil-bearing structures has occupied the Bahrain National Oil Company (Banoco) for many months.

Third-party consultants, including Elf-Aquitaine and Chevron, have been brought in to interpret various aspects of the seismic data. Final assessments should be ready by August, but these must be set against the record of 11 dry holes which have been put down onshore and offshore over the last 30 years.

Another failure would be more painful this time. Bahrain is footing the exploration bill rather than a foreign concessionaire, and it can ill afford to gamble. Yet there will be powerful incentives to go ahead with a series of test wells, if the odds on a discovery are better than even.

"I think we will drill," says Mr Yousuf Shirawi, the Minister for Development and Industry. But he makes rapid sketches to explain how easy it is to miss a very small hydrocarbon trap.

At the same time, proven reserves are not far away: the Aramco-operated Abu Safa field, just 40 miles off the island's north west coast on the edge of the marine concession area, is pumping out over 100,000 barrels a day.

One small offshore exploration area, adjoining Abu Safa, was reassigned last December to the Kuwait Foreign Petroleum Exploration Company (KUFPEC), under a 35-year production-sharing agreement which after recovery of costs, gives Bahrain 80 per cent of any oil or gas found.

The operating agreement with KUFPEC calls for new seismic surveys and the drilling of two exploratory wells within three years. One of these wells will go down to 13,000 feet, passing through the Khuff zone which already provides Bahrain with an important source of natural gas.

Oil and gas production

MARY FRINGS

Three unproductive wells have already been drilled in this 2,672 square kilometre block, by Superior Oil Company which first took up the concession in 1970, and by the U.S. consortium led by Union Texas which relinquished it in March last year. The Kuwaitis hope for better success by using more advanced survey techniques than were available 10 years ago.

The big red and white Santa Fe rig which has been rumbling away to the west of Awali village over the past four months is drilling not for oil but for gas. It is close to completing Well No. 370, reaching 11,000 feet down into the Khuff formation and another 1,600 feet beyond it, to probe any underlying reserves.

Unlike Kuwait, Bahrain is not dependent on its oil production for gas to fuel the power-station turbines and to provide feedstock for petrochemicals.

Although reserves of rich non-associated gas from the shallower Arab Zone are heavily depleted, leaner gas from the deep Khuff Zone could last 40-50 years, provided it is not liquefied and sold for export. At present this happens only indirectly.

Khuff gas is re-injected into the oil reservoir to maintain pressure or to lift the oil to the surface. Some of it reappears as associated gas which is then fed to Banagas for the extraction of propane, butane and naphtha.

Because of the increasing consumption of Khuff gas in the oilfield, and some by-passing of reservoir cap gas into problematic wells, Banagas has not seen the decline in feedstock supplies which was originally forecast and is currently working above its theoretical design capacity.

The other major Khuff gas consumer apart from the refinery used to be the Alba smelter, but Alba has now switched to residue gas from the liquefaction plant, and in 1983 the Bahrain State Electricity Department (BSED) took 34 per cent of the available 378 mmcfd. Banoco's four-year gas development programme has been designed to keep pace with the increasing number of power stations and desalination plants, as well as to meet the future energy needs of the iron pelletising plant and the aluminium rolling mill, and to feed the petrochemicals industry.

Mr Yousuf Shirawi, Minister for Development and Industry

Four new Khuff gas wells were drilled in 1982-83, bringing the total in production to 15. Another four are due for completion this year, each yielding an average of 50 mmcfd, and two the year after. By 1986 gas prodction will have risen nearly 80 per cent, to 670 mmcfd, and development until 1989 while it assesses the performance of the 21 wells.

Failing a new oil strike, gas may be all Bahrain has left by the turn of the century. But right now, Banoco's major preoccupation is to get the best out of the ageing oilfield, and 1983 production of just over 15m barrels was very close to that of the previous year, from a total of 252 producing wells.

Enhanced recovery methods—which will inevitably add to production costs—are now under discussion, but the Government wants to be sure of a worthwhile return on its investment.

Since Bahrain is an exporter of products, not of crude oil, extra barrels produced at home mean lower volumes of purchased crude to keep the 250,000 b/d refinery running at economic levels. And in prevailing market conditions, the "home" barrels are the only money-makers.

THE BAHRAIN NATIONAL OIL COMPANY

100 per cent state-owned.

Established in 1976 with authorised capital of BD 100m ($260m) of which BD 5m is currently issued.

Chairman: Yousuf Ahmed Shirawi, Minister of Development and Industry.

Acting general manager: Mohamed Saleh Shaikh Ali.

Banoco's first responsibility was the local marketing of refined products and the operation of filling stations.

The state acquired 100 per cent ownership of its oil production facilities in 1979, and Banoco took over full responsibility for oilfield management in January 1982.

It is also responsible for exploration activities onshore and in Bahrain's territorial waters, except for a 660,000-acre block operated by the Kuwait Foreign Petroleum Exploration Company (KUFPEC).

An international sales division to market the Government's share of product from the Bapco refinery was set up in 1983.

Opec price tie hits profits

THE BAPCO refinery is passing through the most difficult period in its 48-year history. This is because, in the words of one oil industry official, "You cannot run a profitable refining operation any more by buying crude oil. You need to have it."

Bahrain does not have enough of it to keep alive a 250,000 b/d refinery with nearly 4,000 employees. Domestic production now amounts to only 16 per cent of total throughput capacity and just over a quarter of the government shareholder's 60 per cent entitlement; and it is dwindling year by year.

Even before the 34-mile long Arabia-Bahrain (AB) pipeline was laid in 1945, crude oil was being imported by barge from the newer and richer Saudi oilfields. The discovery 20 years later of offshore oil resources at Abu Safa, which the rulers of Bahrain and Saudi Arabia agreed to share to avoid a dispute over territorial sovereignty, made no difference to the physical supply situation, since it was money and not oil which flowed into Bahrain from Abu Safa.

In those days crude oil prices were low and the margins on refining were attractive. Arabian Light was a money-spinner. As recently as 1981—the year after the Bahrain Government became majority owner of the Bapco refinery and a joint-venture partner with Caltex in running it—Arabian Light was still the best value on the market, and both partners bought as much of it as they could process. Average refinery throughput that year reached 259,000 b/d, one of the highest on record.

By 1982, Arabian Light at the Opec marker price of $34 a barrel was beginning to be over-priced, and average daily throughput at the Bapco refinery was cut to 197,392 barrels—the first time in 18 years it had fallen below 200,000.

Last year there was a further reduction to just under 175,000 b/d, partly as a result of a "black February" during which the AB pipeline was shut down for all but a few days and the crude run dropped to an average of 86,000 b/d.

For most of the month, the government shareholder put in only the 42,000 b/d of Bahrain crude which it had at its disposal, while Caltex put in nothing. March was almost as bad, but the subsequent $5 cut in crude price offered at least temporary relief.

Because of a very cold winter in the U.S. and some nervousness over Iran's intentions in the Strait of Hormuz, there has not been a similar slump this year and throughput in the first quarter climbed to around 200,000 b/d. Product prices, however, remain depressed and refiners' margins continue to be in the red.

One factor pushing product prices down is the availability of discounted crudes on the international spot market—

Neither shareholder rules out the possibility of seeking a more economic source of supply, but neither has actually done it yet. Caltex, with 1.2m b/d of refining capacity worldwide and its own marketing outlets, has some room for manoeuvre.

It is also mitigating the loss potential of its Bahrain operation in a repeat of last year's tolling deal with the Indian Government, under which it processed for a fee just over 1.1m barrels of Bombay high crude over a 60-day period. The current contract is more extended and involves slightly higher daily volumes.

Oil and gas refining

MARY FRINGS

The Bahrain Government no doubt feels obliged to defend the Opec price structure as long as it can, and is being helped by the small but comfortable "cushion" of domestic crude and a degree of give-and-take with product exporters in Kuwait and Saudi Arabia.

The possibility of refining crude on behalf of Petromin was raised last year, and an offer of 10,000 to 20,000 b/d for a limited period is now understood to be under active discussion. It may materialise into a processing contract once an appropriate pricing mechanism has been worked out, but Bapco has not so far run any Saudi crude other than that purchased commercially by the shareholders.

The Government clearly did not foresee a world refining crisis when it signed the participation agreement with Caltex three years ago, and now that the agreement is up for review it may be thinking less of its sovereign rights and more of incentives to the foreign partner to stay in.

One straw in the wind is that last year the Government expressed the intention of "taking over" the profitable airport fuelling facility from Caltex and BP. Now it talks of negotiating to buy into its equity.

Today, Bahrain is an important staging post on the route from Europe to Australia and the Far East, served by nearly 30 airlines, and aviation fuel sales average 8,000 b/d.

Bapco has taken measures to cut expenses. It made savings of 15 per cent in 1982 and another 20 per cent last year, all without firing any employees. Although nearly 1,000 people will go over a four-year period, this will be achieved through retirement, redeployment, natural wastage and non-renewal of expatriate contracts.

Although the economy drive has not affected training the reduction in expenditure on routine plant maintenance must increase the risk of major shutdowns.

It was an accidental fire, however, which caused a four-month shutdown of No 2 Hydro Desulphurising Unit last year, together with the tragic death of two employees. This delayed start-up of the $31m Light Isomate Production Project (LIP), which finally went on line in September.

Although the purpose of the plant is to increase the yield of middle distillates (mainly diesel and naphtha), the market demand for these higher value products has not been as strong as was hoped.

This situation also has a bearing on the future of the Heavy Oil Conversion Company (HOCC) project, which was conceived as a joint-venture between Bahrain (40 per cent), Kuwait and Saudi Arabia (each 30 per cent). The company has already been incorporated in Bahrain with an interim capital of $2m and C. E. Lummus of the U.S. completed a detailed techno-economic study in March 1983.

But the economics of investing $1.5bn to $2bn in a 80,000 b/d hydrocracking unit now look different. Mr Shirawi comments: "When we thought of this project, there was a very clear margin to be gained from upgrading heavy fuel oil.

"Now there is a surplus of products and with the new capacity coming on stream in the Gulf we can refine crude without the need to crack it. Perhaps a smaller hydrocracker would be viable—say 30,000 b/d."

HOCC is now studying ways of cutting investment costs to a possible $800m, by sharing marine terminal and tankage facilities with Bapco, and exchanging some process streams, as well as by reducing the overall size of the plant.

If the new export refineries coming on stream in the Arabian peninsula (including Jubail and Yanbu, each 250,000 b/d, and 175,000 b/d of incremental capacity in Kuwait) are of concern to the U.S. and European majors, they also raise the question of where the market for Bapco products will be in the future.

Domestic sales in 1983 amounted to 2.6m barrels—roughly 17 per cent of Bahrain production and 6 per cent of the government share of total refined products (these figures are an approximation because no fuel oil is sold locally). Domestic consumption, which is to some extent subsidised, is rising by about 10 per cent a year.

Over 40 per cent of Banoco's international sales go to neighbouring states, many of which are rapidly achieving self-sufficiency in refined products and will themselves become exporters.

Much will depend on how the GCC states succeed in working together. Mr Shirawi says Bahrain, Kuwait and Saudi Arabia have made a good start and he hopes Qatar, the UAE and Oman will join in.

THE BAHRAIN PETROCHEMICAL COMPANY BSC (BAPCO)

Superseded The Bahrain Petroleum Company Limited (also known as Bapco), a Canadian-registered company formed in 1929 by Standard Oil of California (Socal) to set up an oil industry in Bahrain. With the creation in 1936 of Caltex Petroleum Corporation by Socal and Texaco, Bapco became a wholly-owned subsidiary of Caltex.

In 1981 the Bahrain Government took a 60 per cent participation in those oil industry assets which it did not already own, ie, the 250,000 b/d refinery and related facilities.

Bapco Ltd then ceased to exist, and Bapco BSC was set up with authorised and issued capital of BD 200,000 ($530,000) as a 60-40 joint-venture between the Government and Caltex, to operate the refinery, marine terminal and employee facilities on behalf of the shareholders.

Chairman: Yousuf Ahmed Shirawi, Minister of Development and Industry.

General Manager: D. F. Hepburn.

A Services division was set up in 1983 to manage educational, medical, housing, transport and other employee facilities, and to make them available to related industries on a chargeable basis.

BANOCO

Bahrain National Oil Company International Marketing 1983 Export Sales Volume (Refined Products)

Destination	Barrels '000s	Percentage of sales volume
Arabian Gulf (Gulf states, North and South Yemen)	12,935	41.0
Far East (India, Pakistan, Japan, Singapore, Thailand)	8,989	28.5
Africa (including Egypt, Sudan, Djibouti)	3,224	10.2
Indian Ocean Islands (Mauritius, Seychelles, Malagasy)	2,082	6.6
Europe	1,550	4.9
U.S.A.	1,414	4.5
Australiasa	1,334	4.2
TOTAL	31,528	100.0

(excluding bunker fuel and product exchanges)
Source: Banoco

On this and the next two pages Mary Frings outlines the ownership, capacity and marketing policies of 11 top companies

The major manufacturing and service industries

Gas sector

BAHRAIN NATIONAL GAS COMPANY

Ownership and construction: 75 per cent *Government of Bahrain,* 12½ per cent Caltex, 12½ per cent Arab Petroleum Investment Corporation (Apicorp). Capital: BD 8m ($21m).

Plant completed at the end of 1979 at a cost of $90m, on basis of preliminary feasibility study (1977) by Caltex and McDermott Hudson Engineering. Contractors were McDermott (process design), Japan Gasolene Company (mechanical design and main contract), Daelim of South Korea (construction sub-contract).

Financed by seven-year commercial loan of $60m, signed in 1978 and prepaid in July 1981, and a further $50m in *short-term facilities through* the medium of promissory notes.

Raw materials: associated gas from the Bahrain oilfield.

Payment for raw materials: Banoco supplies gas without charge. But the 46 per cent income tax payable to the Government on *profit* from operations (not on bank interest) could be regarded as a form of payment for raw materials.

Capacity and products: design capacity *is 110m standard cubic feet a day* (mmscfd), but in 1983 throughput averaged 127 mmscfd and is currently up to 140 mmscfd.

The company is evaluating ways of handling the extra gas more efficiently, and a de-bottlenecking project costing $3m (not requiring the duplication of any major equipment) is *likely* to go ahead this year. This will take capacity to 145 mmscfd. McDermott is being called in to study the economic feasibility of further expansion.

Gas liquids sold in 1983 (1982 in brackets): propane—80,104 mt (71,701 mt); butane—83,794 mt (89,070 mt); naphtha—1,210,423 net barrels (1,139,922 net barrels).

In addition, residue gas was piped to the ALBA smelter at an average rate of 108 mmscfd.

It is now estimated that with the existing plan capacity, associated gas will be available as feedstock until the year 2,000. But the admixture of increasing quantities of leaner Khuff gas (see article on oil and gas production) means a reduction in molecular weight.

Marketing: residue gas is transferred to Banoco for sale to ALBA at the government selling price. Gas liquids are purchased by Caltex, which sells them mainly to Japan, although small volumes are also going to NW Europe, Italy, India, Lebanon.

Pricing of product: no sales value is *put* on the residue gas transferred *to* Banoco. The Caltex purchasing agreement is linked to Petromin posted prices, which reflect long-term contractual sales from the Gulf to Japan. Caltex may of course sell spot or to other destinations, and picks up any differential which may exist above or below Petromin prices. These declined in 1983, by 10 per cent on propane and naphtha and 6 per cent *on* butane.

Government income: *in 1983 Banagas made a profit before tax of $60.4m* (1982—$57m; 1981—$66m). Out of this the government net-back amounted to $27.2m in income tax, plus 75 per cent *of the $33.2m dividend to shareholders.*

GULF PETROCHEMICAL INDUSTRIES COMPANY
(under construction, operational 1985)

Ownership and construction: owned equally by the governments of Bahrain, Kuwait (through PIC) and Saudi Arabia (through SABIC). Authorised capital of BD 60m ($160m) is fully paid up.

Reclamation of 600,000 square metres of land from the sea near the Sitra oil terminal started in 1981 and construction work on site in 1982.

Project consultants: Uhde of W. Germany (process technology), with methanol technology sub-licensed from ICI); King Wilkinson International BV (engineering, project and construction management); Cowi-Consultant (dredging and reclamation).

Contractors include *Snamprogretti* (Main construction contract $80m, equipment cost-reimbursible); Saipem (civil and mechanical sub-contract); Van Oord BV *(dredging and reclamation $13m)*; Motherwell Bridge (supply of storage tanks $10.5m). Total project cost: $450m ($380m for construction, rest for start-up *and operational working capital).*

Financed mainly by a $300m syndicated loan and guarantee package arranged in December 1982 with 28 banks, covering export credits of up to $160m from Italy, $13m from Japan and $20m from UK. A $159.6m purchasing facility for bills issued to Snamprogretti was signed with another syndicate of 31 banks in December 1983.

Raw materials: non-associated Khuff gas.

Payment for raw materials: at the government selling price.

Capacity and products: 1,000 mt a day of Ammonia, 1,000 mt a day of methanol.

Marketing: there is no local demand for either product. PIC of Kuwait has agreed to handle exports of ammonia for the first five years of production, and SABIC is expected to make similar arrangements for the marketing of methanol.

Government income: estimates for gas sales revenue from GPIC do not yet appear in the *state budget. A one-third* share of any profits will accrue to Bahrain, but dividend policy has not yet been stated.

Aluminium sector

ALBA, ALUMINIUM BAHRAIN

Ownership and construction: owned 57.9 per cent by Government of Bahrain, 20 per cent by Government of Saudi Arabia (through SABIC), 17 per cent by Kaiser Aluminium and 5.1 per cent by Breton Investments (a subsidiary of Eckhard-Werke of West Germany).

Between 1974 and 1976 the Bahrain Government bought out four of the original shareholders (General Cable, Elektrokoppar, British Metal, Western Metal) and increased its stake from 19 per cent to 77.9 per cent. A 20 per cent stake was sold to the Saudis in 1979.

In 1971 authorised capital was BD 5m ($13m) with BD 3m issued and paid up. Another BD 1m was issued during 1979, and in 1981 authorised, issued and fully paid capital was increased to BD 25m ($66m).

The smelter was built by British Smelter Constructions (a consortium of Wimpey, Amari and John Brown Engineering) between 1969 and 1973, at a cost of BD 90m ($240m). Limited production started in 1971.

Construction was financed primarily by ECGD-supported loans of £43m, arranged by Williams and Glyn's Bank. Another BD 5m was raised from three locally-based banks, and $8m from Orion Bank, followed by a $20m revolving credit facility for working capital, through the medium of promissory notes.

● A 40 per cent expansion of production capacity involving construction of two new potrooms and an additional power-house with five turbines, was completed in 1981 at a cost of $120m. Partly financed by a $70m syndicated loan.

Contractors included Norway's Ardal og Sunndal Verk ASV (process technology); Kaiser Engineers (design and construction managment); Ewbank and Partners (power station consultants); John Brown Engineering (turbines).

● In 1983 billet capacity was doubled at a cost of $4m.

● The four original potrooms (456 pots) will be modernised in a three-phase retrofit programme over the next six years, if trials prove successful. Total cost $93m.

Phase I will equip two test pots with computerised alumina and fluoride point feeders, by December this year. Phase II takes in a further 10 pots, but also adds pot hoods and gas cleaning equipment, and increases amperage. The programme aims to increase metal production by up to 15 per cent for the same power consumption, improve working conditions in the potrooms and reduce manpower. Contractor is ASV.

Raw materials: for one year's metal production, 340,000 tonnes of alumina (from Australia); 6,000 tonnes of fluoride and 3,100 tonnes of cryolite (Italy, Japan); alloys for billet and rolling slab (mainly Europe); 88,000 tonnes petroleum coke (U.S.) and 23,000 tonnes of pitch (Australia, Germany).

Payment for raw materials: at world prices. Alumina is purchased under a 20-year contract with Alcoa, running until 1990.

Capacity and products: design capacity *after expansion 170,000 mtpy* (from 120,000 mt). Power station 400 MW. 1983 production 171.694 mt (1982—170.960 mt).

The major product is standard ingot, but Alba also has billet capacity of 60,000 mtpy and rolling slab capacity of 16,000 mtpy. Also produces T-ingot and delivers hot metal to local downstream industries (Bahrain Atomisers and Midal Cables).

Marketing: Kaiser and Breton Investments each market their own share of Alba production. The Bahrainian Saudi shareholders' annual offtake of about 133,000 mt is sold by their joint marketing company BALCO, or stockpiled according to market conditions. In 1983 stock was reduced from almost 100,000 mt to 50,000 mt. Total shipments during the year (including Kaiser and Breton metal) topped 215,000 mt.

BALCO made deliveries to 122 customers in 22 countries. Sales revenue at $288.3m was 52 per cent up on 1982, whilst tonnage of metal sold increased by 27 per cent to over 175,000 mt. Sales distribution by region was: Middle East 29 per cent; Far East 59 per cent; S.E. Asia, 8 per cent, Indian sub continent, Europe, Oceania, Africa each 1 per cent.

In the first quarter of this year Japan stopped buying on the spot market but the U.S. is coming in.

Pricing of product: the transfer price of metal from Alba to *the shareholders* is based on budgeted total cash outflows, including loan repayments and capital expenditure. In this way shareholders underwrite production costs and provide cash twice monthly.

BALCO's sales prices are geared to the international spot market. Ingot prices *jumped from a low of $1,050 a* tonne at the start of 1983 to $1,800 by the third quarter, but fell back 6 per cent by year-end. Prices have remained below their peak but are *expected to recover during* 1984.

Government income: BALCO made a profit of $29.9m in 1983, compared with a record loss of $22.2m in 1982. Until now, profits have been distributed monthly, 74 per cent to Bahrain and 26 per cent to Saudi Arabia, rather than in the form of an annual dividend.

The state budget projects an annual revenue of $12.8m from sales of natural *gas to Alba.*

The cast house at Alba where molten metal is delivered by crucibles to mixing furnaces, treated, alloyed and cast into ingots and billets

BAHRAIN ATOMISERS INTERNATIONAL ALUMINIUM POWDER PLANT

Ownership and construction: owned 51 per cent by Government of Bahrain, 49 per cent by Breton Investments. *Built 1972.* Breton was process consultant. Contractors: Wimpey in association with local contractor Abdulla Nass. Construction cost BD 250,000.

Raw material: *molten aluminium from* Alba.

Payment for raw material: the shareholders obtain their metal from Alba at the current transfer price. BAI is purely a tolling company which processes the metal on their behalf.

Capacity and products: throughput capacity 7,000 mtpy. In 1983 throughput was 4,000 mt (1982—3,500 mt). For several years the Bahrain Government did not utilise its capacity entitlement and the input was entirely Breton metal.

This changed in 1984 and the input is now 50-50. Throughput is currently up to 75 per cent of capacity (over 5,000 mt).

Marketing: orders are now pooled and production and profits are shared equally, *irrespective or which* shareholder actually obtained an order. Japan is the most important market, although sales to UK and the U.S. are growing. There is no regional *demand* as yet, but samples have been sent to a local quarrying company, and to new projects for the manufacture of industrial explosives in Riyadh and Oman.

Pricing of product: according to the world market.

Government income: none over the past few years. From 1984, 50 per cent of any added value obtained on powder, after deduction of the atomiser's operating costs.

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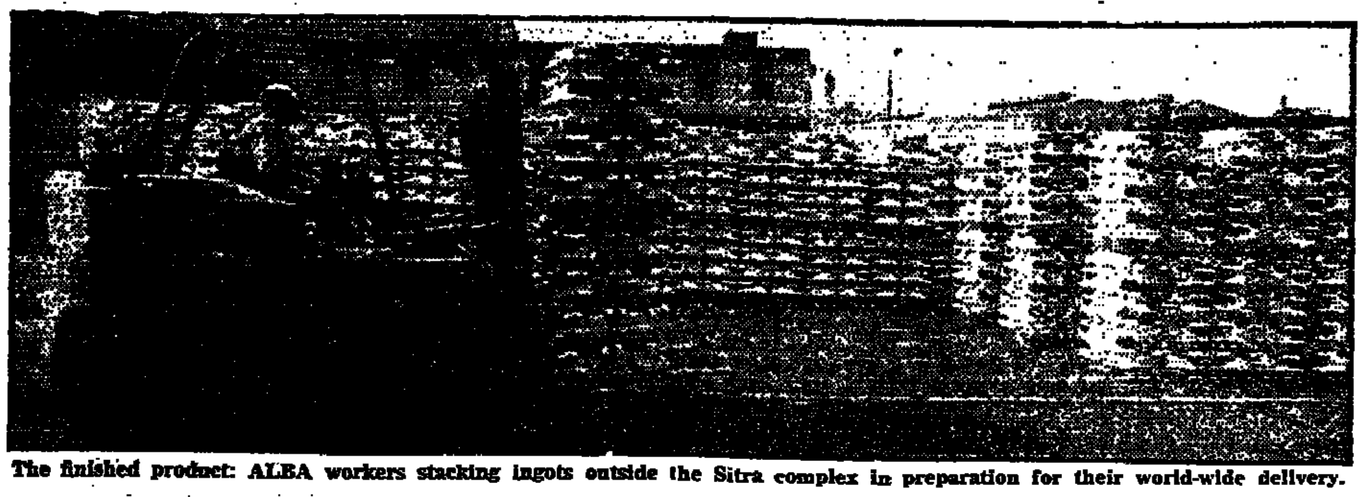

The finished product: ALBA workers stacking ingots outside the Sitra complex in preparation for their world-wide delivery.

Aluminium sector

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BAHRAIN ALUMINIUM EXTRUSION COMPANY. (BALEXCO)

Ownership and construction: 100 per cent by Government. Equity capital BD 6.3m ($16.7m) after capitalisation of loans. Built 1977 at a cost of $10m. Design and construction contractor was Alusuisse, with local sub-contractor.

Project financed by issued capital of BD 3.5m, plus BD 1.9m in soft loans from the Government for start-up and working capital. A BD 250,000 expansion completed in November 1983 increased capacity by 25 per cent.

Raw materials: extrusion billet manufactured by ALBA and purchased from BALCO.

Payment for raw materials: a long-term contract which is geared to spot market rates. The company emphasises the "arm's length" nature of its dealings with BALCO, with no subsidies or concessions on raw material costs.

Capacity and products: press capacity of 6,000 mt a year, anodising capacity of 4,500 mt a year.

Manufactures under licence the French Technal architectural systems and AS-200 curtain walling (Alusuisse). Full range of extrusions for construction and general enginering use, either mill-finished, anodised or (from June) paint-finished by Al Zamil.

Recently produced a trial order of 5-metre aluminium streetlighting columns for BSED (state electricity department), for performance comparison against steel columns currently in use.

Marketing: own marketing division. 1983 sales 4,400 mt, of which 700 mt was mill-finished (1982—4,192 mt/500 mt mill finished).

Customer breakdown: Bahrain 43 per cent (1982—34); Saudi Arabia 26 per cent (28); Kuwait 10 per cent (9); Qatar 12 per cent (17); UAE/Oman 6 per cent (5); Iraq, Pakistan and other 3 per cent (7).

Although the Bahrain market cannot be expected to grow at the same level, 1984 started strongly and Balexco has full order books for the first half of the year.

Supplies more than 20 assembly workshops in Bahrain, of which Al Zamil is the biggest. Seeks to take a small share of each of the GCC markets now that tariff barriers within the community have been removed, but would like to see concerted action against uncontrolled foreign dumping — perhaps through import quotas.

Pricing of product: market rates—against extreme competition from five extrusion plants within the GCC (2 in Kuwait, 2 Saudi Arabia, 1 Dubai) and from producers in the rest of the world (especially Brazil, Greece, Turkey, Lebanon, Korea, Taiwan, Japan) dumping into the area.

Government income: none directly, except for supply of energy. Turnover for 1983 was BD 5.8m ('82—BD 5m) and the company is said to be making "a fair return on capital employed," but all profits have so far been re-invested in plant expansion.

However, the company saved Bahrain nearly $8m in imports last year, and foreign exchange earnings amounted to $7.5m; about 90 per cent of production costs are incurred in Bahrain.

MIDAL CABLES

Ownership and construction: owned 51 per cent by Zayani Investments of Bahrain, 29 per cent by Saudi Cables Company of Jeddah and 20 per cent by Olex Cables of Australia. Shareholders equity $7m. Built in 1977-78 at a cost of $4m. Project supervision and process technology by Olex Cables, civil contractor Gulf Construction Co.

Construction financed by the original shareholders (Zayani and Olex), working capital provided by local banks.

Raw materials: molten aluminium from Alba. Steel wire from Japan, PVC from UK and Ireland, timber for cable reels from UK.

Payment for raw materials: the hot metal is purchased from Balco on quarterly contract, at prices reflecting spot market rates. The company is constantly pressing for more favourable terms, since it is a captive customer, and enjoys no protection against foreign dumping in the products market.

Capacity and products: metal throughput capacity is 18,000-20,000 tonnes a year depending on the product mix. Metal throughput in 1983 was about 13,000 mt for the manufacture of 17,000 mt of finished products.

As part of a $1m expansion project, a contract was signed last month for a second rod mill with product capacity of 20,000 tpy. This could be used solely for aluminium alloy, which Midal will be producing by the end of the year.

With the addition of new holding and tilting furnaces, rod capacity will be increased to 40,000 tpy and cable-making capacity to 24,000 tpy.

Product range: aluminium, aluminium alloy and steel reinforced bare overhead conductors, and PVC insulated cables for overhead power transmission and distribution. Insulation was introduced only last year and already accounts for 4 per cent of sales turnover (which is estimated at over $25m a year).

Midal will be the first cable-maker in the Gulf to make its own aluminium alloy.

In addition to aluminium conductors Midal produces EC grade aluminium re-draw rods for the electrical and wire industries.

Marketing: mainly in Saudi Arabia (80 per cent of sales) in conjunction with Saudi Cables Co. There is a small potential demand in Bahrain but currently all output is exported. Midal is seeking to diversify its market and has made deliveries to 16 countries outside Saudi Arabia; in 1983 the most important were Indonesia, India, Oman and Kuwait.

Pricing of product: added value about 20 per cent. As a specialist producer Midal believes it can compete internationally in quality and price, under realistic trading terms, but has a serious problem with dumping into the region from Europe, South America and the Far East.

Government income: none directly. Midal is 100 per cent privately-owned and is said to be making a modest profit. The only government revenue comes from sales of gas and electricity ($210,000 a year) and nominal site rental.

AL ZAMIL ALUMINIUM FACTORY

Ownership and construction: a member of the privately-owned A. H. Al Zamil and Sons group of companies, which has an annual turnover in Bahrain and Saudi Arabia of $400m. Group chairman is Mohamed Al Zamil who lives in Bahrain. Factory built in Mina Sulman Industrial Area in 1974, but the company is now investing $1.5m in a much bigger factory at Sitra for polyester powder paint finishes (to aluminium and steel) with an aluminium fabrication shop alongside. Openng in June.

Automated spray guns for the painting process supplied by Thorid of UK.

Raw materials: aluminium extrusions from Balexco, some imported accessories. Paints from Corro-Coat of Norway.

Payment for raw materials: prevailing market prices.

Capacity and products: 600 tonnes a year of aluminium extrusions, for all types of achitectural components (doors, windows, balustrades, shopfittings, etc).

The paint-line will have the capacity to apply a range of 12 stock colour finishes (with others available) to 12,000 tonnes a year of metal, working one shift.

Marketing: for aluminium fabrications — mainly local. There are about two dozen smaller assembly shops on the island, but Al Zamil has a 35 per cent market share. Occasionally, the Bahrain factory fulfils contracts for the bigger Saudi factory in Dammam.

For painting, Al Zamil will work in conjunction with Balexco, but is also bidding for outside contracts, particularly for treatment of mill-finished curtain walling. There is only one regional competitor, based in Sharjah.

Pricing of products: whatever the market will stand — there are as yet no tariff barriers against cheaper imported products. Material costs are estimated at 40 per cent of the selling price of a finished window assembly using anodised aluminium. The painting process will have about the same added value as anodising.

Government income: none, except the nominal charges for site and services.

Other projects: Al Zamil employs 450 in Bahrain. Although 300 are in the aluminium factory, which has a turnover of $10m a year, it also has a Marble Factory (turnover $2m and rising) and a Nails and Screws Factory, mainly to supply other group enterprises. A Commercial Division in Bahrain manages the group's investments and agency business.

GULF ALUMINIUM ROLLING MILL AND COMPANY (GARMCO)
(under construction, operational November 1985)

Ownership and construction: owned by six member states of the Gulf Organisation for Industrial Consulting (GOIC). Bahrain, Kuwait, Saudi Arabia and Iraq each hold 20 per cent, Qatar and Oman 10 per cent. Authorised capital BD 24m ($64m) of which BD 13.7m is currently paid up.

Project cost and working capital $125m, financed about equal by equity and export credits from Japan. A $91m commercial guarantee facility has been provided by a syndicate of local and international banks. Construction started September 1983.

Most of the equipment is being purchased from Japan. Working on the project are: Kaiser Engineers (engineering consultants); Kobe Steel of Japan (main contractor) and Kajima Corporation of Japan (civil engineering contractor).

Raw materials: primarily ALBA metal (rolling slab and small quantities of ingot) purchased from BALCO. But the company will deal with other suppliers to ensure it is in touch with market conditions and to have a yardstick for comparing metal quality. Some hardeners (concentrated alloys) will be imported.

Payment for raw materials: prices reflecting world market conditions to be negotiated with the main supplier.

Capacity and products: initial design capacity 40,000 tonnes a year (equivalent to 30 per cent of the Bahrain and Saudi governments' share of ALBA production).

Capacity can be expanded with additional finishing equipment, since basic plant such as the hot mill can handle up to 80,000 tpy.

Products cater to the construction, transport, packaging and general engineering markets, and include roofing and curtain walling for industrial buildings, sheet aluminium for truck bodies and road signs, canstock for beverage cans and foil stock.

Marketing: Garmco will set up its own marketing division, and expects to sell 45 per cent to 50 per cent of its output in the Gulf region. There is a beverage can factory in Saudi Arabia, plus two more under construction. A foil plant in Iraq is a potential customer once the war with Iran comes to an end. Truck bodies are made in both Kuwait and Saudi Arabia. Because of the lack of timber resources, aluminium is an important construction material throughout the region. Garmco could make use of Al-Zamil's painting facility or set up its own. Products surplus to Gulf requirements will be marketed internationally.

Pricing of product: according to the world market.

Government income: profits are projected after 2½ years of operation. The multi-national board of directors will then decide on distribution of a dividend, or re-investment. Some income will come from sales of gas and electricity, and nominal charges for site and services.

Other industries

ARAB IRON AND STEEL COMPANY E.C. (AISCO)
IRON ORE PELLETISING PLANT
(under construction, operational late 1984).

Ownership and construction: an offshore public shareholding company incorporated in Bahrain, with authorised capital of $160m, of which $150m is issued and paid up. Founding shareholders include the Arab Mining Company (based in Amman, owned by several Arab governments — 10 per cent); Kuwait Foreign Trading, Contracting and Investment Company (KFTCIC); Kuwait Metal Pipe Industries Company; GOSI; the Sharjah Group; Gulf Finance Centre; National Industries Company, Kuwait; National Bank of Bahrain; Bank of Bahrain and Kuwait; Al Ahli Commercial Bank, Bahrain. In September 1980 $48m-worth of shares were offered to the public (Gulf nationals) and were 43 times oversubscribed.

Reclamation of 1.2m sq metres of land from the sea near the ASRY dock started in July 1981, and construction on site began a year later. Project consultants: Kuwait Engineering Operation and Management Company (Kenomac), with Sir Alexander Gibb as sub-consultant for the marine work.

Contractors: Al Jazira Contracting and Investment Company, in conjunction with Ahmed Mansoor Al A'ali (dredging and land reclamation — $15m); Kobe Steel (turnkey construction contract — $207m); Balfour Beatty in association with Abdulla Nass (sub-contract for deepwater jetty, to berth bulk carriers of up to 100,000 dwt — $14m).

Total project cost $310m, financed by equity and by export credits, covered by a $158m syndicated guarantee facility provided mainly by Arab banks.

Apart from the pelletising plant, which uses the grate kiln system, there is a power station with 78 Mw installed capacity (3 turbines), a 3,000 cubic metres a day desalination plant and a 135,000 tonnes a year hydrated lime plant. The first ship is due in July.

Raw materials: iron ore fines from different sources (South America, India, Mauretania, Australia are potential suppliers).

Payment for raw materials: market rates. From the end of 1984 will start negotiating long-term contracts (probably 5 years).

Capacity and products: 4m tonnes a year of iron oxide pellet (11-16 mm) which meet the requirements of the HYL and Midrex direct reduction processes.

Ninteen Eighty-Four production is expected to be 400,000-500,000 tonnes, 1985 2.5m tonnes and 1986 4m tonnes.

Ships will unload iron ore and load pellet for delivery to sponge iron plants at the rate of 3,000 tonnes an hour.

Marketing: primarily to integrated steel mills in Iraq, Saudi Arabia (Hadeed) and Qatar (QASCO). Iran will also be an important potential customer once the war ends. A letter of intent has been received from the 3m tonnes-a-year Iraqi steel plant, near Basra, but it is closed for the duration of hostilities.

Letters of intent have also been received from Malaysia and Indonesia, offering useful back-loads for returning ore-carriers, and from Egypt. Negotiations with Hadeed and QASCO are still in progress.

Pricing of product: to compete in the world market. Steel prices have increased 5-10 per cent over the past year but there has been a 10 per cent decrease in the prices of ore and pellet. AISCO hopes to see a recovery in 1985 if steel prices remain firm, and volume is already up 10 per cent.

Government income: none directly, except through Khuff gas sales to fuel the furnace and power station turbines (estimated at $40m a year at full production, at current cost levels).

In 1983 the company showed net income of $7.9m (1982—$6.5m) from return on invested capital. Operational break-even point is put at 2.7m tonnes a year production. A small percentage of any dividends will accrue to quasi-government shareholders (GOSI and NBB).

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Other industries

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BAHRAIN LIGHT INDUSTRIES COMPANY (BLICO) FURNITURE FACTORY

Ownership and construction: a Bahraini public shareholding company with authorised capital of BD 10m ($26m), of which BD 2.5m is issued and paid up.

Major shareholders are Gulf Investment Company E.C. (48 per cent), General Organisation for Social Insurance (15 per cent), National Bank of Bahrain (11 per cent).

The furniture factory is the first of several planned light manufacturing projects, including a galvanising plant for structural steel, and factories for cardboard packaging materials and welding electrodes.

It was commissioned in February this year at a total cost of BD 3.5m ($9m). Project consultant: Motor Columbus of Switzerland. Contractors: Mohamed Jalal Contracting (construction—BD 2m); SCM Engineering of Italy (supply of machinery, initial management and training—BD 1.2m).

Project financed by a 13-year BD 2m soft loan from the Abu Dhabi Development Fund, and a BD 1m letter of credit financing facility from the National Bank of Bahrain.

Raw materials: imported timber and plywood.

Payment for raw materials: market rates, as from next year on long-term tender.

Capacity and products: 65,000 pieces of furniture per year. Wooden and plywood furniture for residential, office, school and hospital use, initially to Danish designs.

Will reach 50 per cent capacity in the first year, and full capacity by the end of 1985.

Marketing: expects to sell 45 per cent of full production to local market, where major customer will be Government of Bahrain for housing, schools and hospitals. The rest will be marketed in the region.

Pricing of product: aims to be competitive with quality furniture.

Government income: non directly, apart from nominal charges for site and services (rent estimated at BD 2,000 a year until 1990, doubled for the next 5 years). If, as projected, breakeven point is reached at 50 per cent of production capacity, dividends will accrue to quasi-government shareholders (GOSI, and NBB which is 49 per cent government-owned).

ARAB SHIPBUILDING AND REPAIR YARD

Ownership and construction: owned by 7 OAPEC member states: Saudi Arabia, Kuwait, Bahrain, UAE and Qatar each 18.84 per cent, Iraq 4.7 per cent and Libya 1.1 per cent. Chairman is Sheikh Daij Khalifa Al Khalifa, representing the State of Bahrain.

Managed (until end 1984) by Lisnave of Portugal; a new technical assistance contract is under negotiation.

Fully paid capital of $340m equates with cost of construction, and no loan finance was involved.

First feasibility study dates from 1968. In 1974 a 10-year management contract was signed with Lisnave. Reclamation of 450,000 sq metres of land on the edge of a tidal reef, and construction of a 7 km long causeway to the shore started the same year. The drydock was completed and flooded for test in May 1977. The first commercial docking (Italian-owned VLCC Ambrosiana, 231,000 dwt.) was in October 1977.

Joint consulting engineers: Gibb-Profabril (Sir Alexander Gibb with Gibb Petermuller for workshops and buildings, Profabril of Lisbon for the dock). Main construction contractor was Hyundai of South Korea.

Facilities: One 375m x 75m drydock designed to accommodate VLCC's up to 500,000 dwt. Two 170m x 21m finger jetties for the repair of four vessels alongside.

Five mobile cranes with 15-100 tonnes capacity, and a 200 tonne floating crane. Full range of mechanical, plate, pipe and electrical. A fleet of 6 tugboats of 32 tonnes bollard pull and a floating tank cleaning station.

Total staffing just under 1,000 (including 80 Lisnave personnel). Additional technical back-up available from Lisbon as required. Asry has a wide range of service agreements, and joint-venture companies with Lips United BV (Asrypropel) and Castolin Eutetic of Switzerland (Asryweld) provide specialist propeller repairs and welding.

Marketing and prices: ASRYMAR (a London-based affiliate) and a network of agencies worldwide are responsible for attracting customers in a depressed and dangerously competitive market. European yards are now bidding as low as the traditionally cheaper Far East; Asry quotes in dollars and has been hit by the U.S. currency's relative strength. But despite the constraints of the Gulf war and a reduction of tankers on the route since the oil glut, ASRY claims to have repaired more VLCC's in 1982-83 than any other yard. Competition from Dubai may have an increasing impact.

Forty-one vessels were drydocked in 1983 (1982 — 49; 1981 — 61) and nine were repaired alongside (24, 36). But the reduction in numbers reflects the increasing work content of repairs as well as scarcity of ships. One of the smaller vessels handled, the Kuwaiti tanker Umm Al Roos (66,000 dwt) was in dock for a month and alongside for a further 10 days for damage repairs which consumed 225 tonnes of steel.

ASRY began to break into the steel fabrication market last year to utilise spare workshop capacity, and for the first time used more steel on landwork (1,148 tonnes) than on shiprepair (934 tonnes).

Government income: the shareholders agreed to fund losses up to and including 1984. Budget projections are now being drawn up for the next six years but profits are not forecast in the immediate future, and further support will be required. An operating loss of $9.7m was revealed for 1980, on sales revenue of $26.4m. The loss quoted excludes depreciation of $16.5m. Since then only sales revenue figures have been published: 1981 — $29m; 1982 — $31m; 1983 — $17.5m.

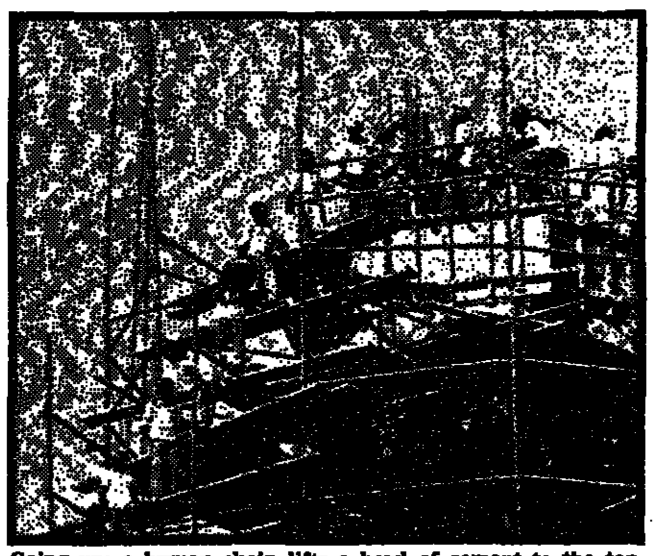
Business has improved in the early part of this year, with one repair job alone (on a jackup rig which does not take up dock space) worth $3m to $4m.

Government aims to stem flow of expatriates into prestige jobs

Bid to take Bahrainis up the employment ladder

Labour

KATHY EVANS



Going up: a human chain lifts a bowl of cement to the top of a building under construction in Manama. The country needs to create another 40,000 jobs in the next decade to ensure full employment of Bahraini nationals.

BAHRAIN IS the only Gulf state where the local government has drawn up specific laws and programmes to ensure the employment of its nationals. The country's economy is not awash with oil funds, and therefore it cannot rely on general prosperity to provide a growing number of opportunities for its people to enrich themselves.

Nevertheless, at the moment there are more jobs than there are Bahrainis entering the labour force, and like other Gulf states the island has a growing number of foreigners in its work force.

Despite a certain stabilisation in the economy, the foreign component in the labour force has been steadily rising. In 1976, the boom year of development in the region, Bahrain granted 14,933 work permits to foreigners. By 1978, this number had soared to 33,837.

Although this figure subsequently dropped back to 26,109 and even further in the two subsequent years, it has been rising again since 1981. Last year, it was up to 31,844.

A large part of the increase last year was in the construction sector with the start of the aluminium rolling mill and petrochemical projects. Other sectors showed similar increases, indicating that foreigners are becoming more prominent in the services and professional categories.

Expatriate workers now comprise around 58.5 per cent of the total labour force compared with 41.5 per cent for Bahrainis. In the private sector, the dominance of foreigners is much higher, for Bahrainis only constitute 25 per cent of the total.

Women's role

Predicting the future rate of participation of Bahrainis in the labour force depends largely on the economic growth in the country. The bulk of the island's population is very young, aged less than 24 years.

They account for over 155,000 Bahrainis out of the total of 238,420. Thus any set of policy options should allow for an increase in Bahraini male employment from 49,300 in 1981 to about 79,000 in 1991.

The participation of Bahraini women in the labour force is growing more rapidly than in any other Gulf country. In 1981 they constituted 13.3 per cent of the labour force compared with only 3.8 per cent in 1971.

Labour statisticians estimate that about 800 to 1,200 women workers will enter the labour force each year. Bahraini women are protected by one of the most pro-female labour laws in the region, guaranteeing 45 days full paid maternity leave and a further 15 days on half pay.

Therefore, in order to ensure the full employment of Bahraini nationals during the next decade, the country must produce about 30,000 jobs for men and between 8,000 and 12,000 jobs for women. The total number of Bahrainis employed should increase from 57,000 in 1981 to 99,000 in 1991.

It was against this background of a young population that various schemes were introduced to ensure training and employment of Bahrainis. Private sector employers are now given the option of operating their own training courses for nationals, or providing funds to finance such schemes.

On each employee a company pays a levy equal to 4 per cent for every foreigner and 2 per cent of the salary of every local employee. When a foreign worker finishes his contract, representations are made to each company to encourage them to take on a national as a replacement.

The Government also drew up the "10,000 jobs" scheme which endeavoured to identify 10,000 jobs done by foreigners and to provide a suitably trained Bahraini to replace the foreign workers. The programme was also designed to upgrade the present standard of Bahraini employees to higher positions requiring additional skills.

"We want to take Bahrainis up the ladder," said one advisor at the labour ministry. "We want to make Bahraini typists into administrators, and clerks into managers."

Officials emphasise that they would prefer employers to identify suitable candidates for training, rather than have Bahrainis coming to the Government for training and for help in finding a job.

Despite these measures, there are still between two and five jobs for every Bahraini available. Employers grumble that they cannot recruit Bahrainis to come and work for them, while many others complain that once you do, they train and leave.

Labour officials believe that this situation may settle once Bahrainis themselves attain a higher level of education, investing their own time in assuring a long-term career. At present, there are only 2,626 Bahrainis studying abroad for degrees.

One of the aims of the ministry is to ensure that Bahrainis enter high wage earning careers, for until now, the thrust of their employment programmes has been aimed at the middle-ranking positions.

Labour officials also concede that there is a lot of "target employment" amongst Bahrainis—jobs taken on so that a particular consumer item can be saved for. Once the money is earned, he ceases work. Not surprisingly, some of the major industrial employers in Bahrain now require a Bahraini national to work one year before he is accepted to any apprenticeship scheme.

One of the characteristics of the Bahrain labour force which is noticeable immediately is the absence of Arabs. Of all the states in the region, Bahrain has, by tradition, one of the area's most stringent and security conscious policies concerning visas.

This policy has safeguarded the island's reputation as a trouble-free haven, and allowed it to remain relatively untouched by the turbulence of the Arab world. Bahrain has never been a refuge for those Arabs fleeing economic hardships in their own states.

Well educated

This is largely because the Bahrainis have always been better educated than most Gulf citizens—schools have been functioning for far longer. This early start in education has meant that Bahrain did not have to recruit thousands of teachers or engineers as other Gulf states did at the beginning of their own boom in development.

Bahrain's expatriate Arab community is therefore tiny—there are only 2,500 Palestinians living there (minute compared with other states) and a further 4,000 Egyptians.

It is Asians and Westerners who dominate the foreign manpower component in the labour force. More Americans were granted the right to live in Bahrain last year than Levant Arabs.

Some 105 Americans and 1,123 Britons were given work permits in 1983 compared with 105 given to Jordanians, Lebanese, Syrians and Palestinians in total.

In addition, some 19,014 Indians and 3,909 Pakistanis found work in Bahrain, despite the official policy of "Arabisation" of the work force. Bahraini officials explain these figures by saying that the wages are lower in Bahrain than many other Gulf centres, so Arabs are not attracted.

Most Bahraini private sector companies are fully aware of the existence of an unwritten list of "unacceptable" nationalities. They include Iraqis, Syrians, Lebanese, Palestinians and Jordanians. As one diplomat commented, "If you are Arab then you have really got to have a lot of connections to get a visa to live and work in Bahrain."

Reluctant

Most employers now do not even propose the employment of most Arab nationals out of reluctance to go through the lengthy and usually unsuccessful process of convincing the authorities to grant a visa.

The problem has been highlighted with the development of Bahrain's role as a regional banking centre for the Gulf. Locally registered and offshore banks would frequently like to hire Arab economists and marketing experts conversant with the Arab language and culture.

"The current visa laws mean you have only Bahrainis and Egyptians to choose from," commented one foreign bank executive. (Egyptians are deemed a "safe" nationality in the Gulf.)

Occasionally, some of the leading regional banks have tried to get over the problem by employing Arab Americans. However, they have found that the visa laws refer not only to current nationality, elegibility is governed by place of birth. U.S. officials in Bahrain say there have been a number of Americans of Arab origin who have been refused visas.

The matter was taken up, say officials, but when the banks stepped back from the confrontation, it was laid to rest. "The banks decided that you do not make money out of grumbling," commented one diplomat.

Occasionally, Bahrainis also have experienced difficulties with visa regulations in the course of their own business. A member of the governing board of the local chamber of commerce regales visitors with the story of the time he tried to invite a trade delegation from the Government of the Peoples' Republic of China. Permission was only secured after a lot of telephone calls to high ranking people.

The banks have also had their own experiences. The OBU community reacted very badly when a similar official delegation from Hungary was turned away at Bahrain airport. The delegation included officials from the Central Bank of Hungary, and the delegation had come to Bahrain to sign a substantial Eurodollar syndication which had been put together by one of the Bahrain banks.

"It makes you wonder just how much of an international banking centre Bahrain actually is, when you can't employ or even invite who you like," remarked one leading banker sourly.

The Barber Tampa, one of the biggest vessels of its type in the world, is scheduled to dock in at the Mina Sulmar container terminal today.

Strong start in battle to attract supercarriers

Ports

MARY FRINGS

MODERN ports all round the Gulf are vying with each other to attract the new generation of containerships, like the 44,000 dwt ro-ro vessel Barber Tampa which is now on her 90-day maiden voyage from the U.S. to the Gulf and Far East.

Nearly all these ports have spare capacity and the queues of ships waiting weeks for berthing space are a thing of the past. But it will not be economic for the super-carriers to serve every cargo destination directly.

They will aim for a maximum of three stops in the Gulf and they will go either where their biggest customers are, or where they can off-load for transhipment with the minimum of red tape.

It is something of a coup for Bahrain, with its small domestic market, that Barber Blue Sea has chosen to dock the biggest vessels of their type in the world at the Mina Sulman container terminal. The $80m Barber Tampa, and her sister ships Barber Texas and Barber Hector, will join the existing fleet of six only slightly smaller containerships to boost the frequency of sailings from eight U.S. ports to one every 10 days.

The new super-carriers are 262m long and carry a 2,400 TEU container load—or any combination of containerised and non-containerised goods, cars, trucks, construction machinery and boats. The 12m wide ramp can take cargo weighing up to 600 tons, so even heavy industrial equipment can be rolled on without dismantling.

Speculation

Apart from Bahrain, the discharge ports will be Dubai and Damman. Transhipments for other UAE ports, India and Pakistan will go through Dubai, while Bahrain will be the distribution centre for Kuwait and the Saudi east coast ports of Jubail and Ras al Mishab (since Dammam does not handle any transit trade).

There has been much speculation over whether the opening of the Saudi-Bahrain causeway in 1986 will bring more business to Mina Sulman on the strength of its efficient cargo handling to ensure a fast turnaround. In theory, it should be easier to deliver Saudi cargo by road than by sea, but the existing bonding and transit regulations would have to be clarified to eliminate the risk of containers being held up and unstuffed half-way across at the Saudi customs post.

The causeway will, however, mean a substantial saving on freight charges for local exporters such as Balexco, which is now sending aluminium extrusions across by dhow, to avoid containerising a high proportion of air in the bulk of the consignment.

The much bigger shipments of aluminium ingots from the Alba smelter have been containerised willy-nilly, since the shippers have found it increasingly difficult to find a regular break-bulk alternative.

The growth of container traffic as opposed to conventional cargo has been spectacular, with monthly throughput at the Mina Sulman terminal reported at 10,311 TEU's in February and 10,770 TEU's in March, compared with 8,300 TEU's for the whole of 1978.

Last year, containerised cargo totalling 95,000 TEU's made up 56 per cent of total throughput, compared with 36 per cent the previous year; but if bulk imports of project construction materials are excluded, the container shares are nearer 65 per cent and 60 per cent.

Although Mina Sulman has lost the transhipment trade for Iraq, which artificially boosted container throughput in 1981-82, the introduction of supercarriers is seen as a more than adequate compensation. Apart from Barber Blue Sea, Maersk Line is bringing in bigger vessels and the Joint Container Service (a consortium of OCL, UASC, CMB and NedLloyd) has increased the frequency of its calls.

As part of a $36m investment in the container terminal, Bahrain's port authority has extended berthing space to 600m, enough to accommodate two of the super-carriers at once. It has also brought in two additional gantry cranes, each weighing over 600 tons, and installed a computerised control system which is progressively taking over all documentation, cargo handling and customs procedures.

Felixstowe Port Consultancy Services, which has been called in to study the future development needs of Mina Sulman, has recommended that the Port Authority should take over responsibility for all shipping movements in the harbour approaches.

This is because the hazards of manoeuvring VLCC's coming into ASRY in the same restricted waters as freighters and ro-ro vessels heading for Mina Sulman, and tankers and gas carriers for the Sitra oil terminal, will be increased as new industries open up nearby.

In July, the first ore carriers will begin calling at the Arab Iron and Steel Company's new jetty, just north of ASRY, and more gas carriers will be called for when the petrochemicals plant now under construction at Sitra goes on stream next year.

The solution is a maritime version of Air Traffic Control, known as the Vessel Traffic Management System (VTMS), which will enable the port authority to monitor movements by radar and ensure a safe approach.

A proposal to amalgamate towage services for the various commercial and industrial ports is under study, but it is not yet clear whether the motley collection of tugs and service boats in the separate fleets would be easily interchangeable.

Mina Sulman is not operating at a profit and would be unlikely to fund the establishment of a standardised fleet, although the existing tugs are often under-utilised.

Road to a stricter lifestyle?

A LOCAL restaurant in Bahrain regularly features a set menu popular among incoming visitors from Saudi Arabia. Dubbed by customers "the Saudi special," it consists of champagne cocktails followed by lashings of pork spare ribs.

In contrast to certain fellow members in the Gulf Co-operation Council, Bahrain has traditionally maintained a free and easy social style. Like its rival, Dubai, the island has notched up an image as a regional business and banking centre which is pleasant for foreign businessmen and their families to live and work in. Books, booze and pork sausages are available to all in this haven of liberalism.

Yet on the western side of the island, a project is underway which many believe may change all that. It is the $564m Bahrain-Saudi causeway, which by the end of 1985 will link the island to the Saudi mainland. Its completion is timed, perhaps ironically, with the 14th anniversary of the island's independence.

Nowadays, it is the focal point of any business conversation in Bahrain. Despite the hours of discussion, there are still many conflicting opinions on its economic and political impact.

Most foreigners think Bahrain's liberal style will come under pressure. Almost weekly, rumours circulate on the closures of hotel bars and alcohol shops or the introduction of a permit system allowing only Christians to drink. Saudi Arabia, will not, so the argument goes, relish the sight of thousands of thirsty Saudis pouring over the bridge each weekend.

The contrary view to that is that the Saudis would prefer to maintain Bahrain as a kind of release valve, so that the pressure to liberalise back home is eased.

Bahraini officials say the causeway will make no difference to the island's lifestyle. They do not believe Bahrain is going to be overrun each weekend with reeling Saudis. On the contrary, those Gulf citizens who really want to let off steam will continue to migrate to Europe, where their activities can be conducted with a great deal more discretion than nearby Bahrain. The island, they feel, will become a family tourism resort and weekend shopping centre.

Not surprisingly, land values near the causeway's entry to the island have soared in expectation of Saudis buying land for development. Land brokers say prices have more than tripled in the last three years, and they see no let-up in the increases, particularly when the causeway is in actual operation.

The Bahrain Chamber of Commerce is naturally hoping for more benefits other than to local hoteliers and landowners. However, there is no definitive *opinion as to which merchant* community—the Bahrainis or their Saudi counterparts in the eastern province—will benefit the most from the causeway. A lot will of course depend on the causeway's mode of operation and the visa regulations which will be in force. The capacity of the bridge will be about 30,000 vehicle a day, though.

The causeway

KATHY EVANS

In theory, all customs tariffs between member states of the Gulf Co-operation Council will be removed, if the resolutions talked of by its members are carried out. Bahrain merchants fear that without a tariff barrier between the two states, they may lose out. Volume discounts, higher government subsidies and cheaper capital costs mean that prices in the eastern province are considerably cheaper than in Bahrain.

The island's businessmen fear many Bahrainis will be tempted to buy their large consumer items such as cars and electronic goods in Saudi Arabia rather than at home. Visions of bargain-conscious Bahraini housewives going over each weekend to stock up on provisions have already alarmed members of the chamber of commerce. (Because of higher government subsidies, foodstuffs are appreciably cheaper in Saudi Arabia).

Nevertheless, most members of the chamber believe that the removal of customs tariffs is inevitable, and profit margins will have to be cut in reaction to the competition. After all, by the end of next year, the mainland will be only a 20-minute drive away.

"There may be some casualties, but it is better to open up the two economies and let people go either way," says Abdulnabi Al Sho'ala, board member of the Bahrain Chamber of Commerce.

Determining which way the heaviest traffic is going to be—either into Bahrain or into Saudi Arabia—will depend largely on the visa regulations enforced.

The Saudi authorities have not yet clarified such issues as whether the bridge will be open 24 hours a day, or whether *expatriates will be able to use it*. Under GCC rules, only Gulf nationals will be able to make use of the causeway but Bahrain's expatriate community is now seeking access.

The initiative originated from the island's banking community, which has floated the idea that foreigners with Bahrain residence permits be allowed to have an automatic 72-hour visa to Saudi Arabia, via the causeway. The idea has been enthusiastically adopted by some members of the local chamber of commerce, and is

If the move were accepted by the Saudi authorities, then Bahrain would be firmly established as the region's focal centre for business. A guaranteed access to Saudi Arabia, if only for 72 hours, would encourage many western companies to base themselves in Bahrain's rather than in rival centres.

While the economic rewards of the causeway can as yet only be guessed at, the rewards of constructing it may not be all that great for its builders, Bandar Ballast Nedam. The group is formed by the Dutch company, Ballast Nedam, which is 81 per cent owned by Minefa, a group of Saudi-Lebanese businessmen, togther with the eldest son of the late King Khaled, Prince Bandar bin Khalid Abdul Aziz, who acts as the company's sponsor in Saudi Arabia.

The 25-km causeway is being built on a fixed price contract costing $564m, under terms which allow escalations in price only in certain raw materials such as steel, cement and aggregates. Mr Rop Hupkens, senior contract manager for the groups says: "We hope we will make a very small profit—but then, things can happen."

In a project of such a size, inevitably things do happen. Mr Hupkens points out that the depth of the sea can never be really accurately assessed until construction is under way. Early on in the construction, the Bahrainis became worried about possible seawater infiltrations into the sweetwater aquifers. The resultant study and design changes held up schedules for several weeks. There were also unconfirmed reports of erosion around the piles supporting the bridge sections, owing to increased tidal flows. Ballast Nedam officials deny there are any additional problems which were not already foreseen in the tender, adding that photographs are being taken on a monthly basis to monitor the scouring around the piles.

There are some 1,100 men working on the project, mostly from the Philippines. By the end of this year the workforce is expected to fall to 800. Work has already been finished on the foundations and structure for the Umm Nassan central island, where the bridge's customs and security officials will be housed.

The central complex at Umm Nassan will be the subject of a further contract, shortly to be tendered by the Saudi finance ministry. The area will house not only customs and immigration, but a computer complex, mosques and facilities for the coastguard forces.

Fleet expansion plans toned down

THE recession in the Gulf has finally put a brake on growth of the region's national airline, Gulf Air. Its planners are having to downgrade estimates of passenger traffic growth for the first time, and its senior management appears hesitant to embark on the major fleet expansion scheme talked of only a year ago.

At that time, Gulf Air executives were considering ordering 17 or 18 aircraft. So far only two Tristars are due for delivery this summer, and they will be leased to Air Canada. "Leasing," says financial director Hassan Juma, "is very much cheaper because of the competition in the leasing market. And it is also much cheaper than depreciation."

The new conservative policy comes as planners project a 4 to 6 per cent growth in passenger traffic for the next five years. This compares with 8 per cent recorded in 1983, and many times that in previous years when the region was booming. Juma puts the blame for the slowdown on the decline in construction projects in the Middle East, and the eternal visa problem. A number of states in the region have forbidden expatriate workers the right to change jobs, and many have been forced to return home. Increased security precautions are keeping many out.

Yet while Gulf Air may be facing more normal rates of growth, a substantial transformation in the fleet will be inevitable in the 1990s, as the Tristars have to be phased out. The airline has nine Tristars, eight Boeing 737s for inter-Gulf routes and one 747, leased from MEA for the newly reopened route to Manila. Possible replacements for the Tristars, which are no longer manufactured, are the Boeing 757, 767 or 747, the DC-10 or Airbuses.

With an increase in capacity of 10 per cent last year, the airline's fixed costs inevitably went up. Last year, costs rose by 11 per cent, says Juma, but in 1984 they are expected to increase by 14 per cent. This will occur while the airline's capacity will be growing by a further 16 per cent, if certain routes currently being negotiated are agreed on.

The decline in passenger growth and rise in costs has not dented the airline's profitability. The first three years of this decade have shown steady growth in dividends from BD 3.3m in 1980 to BD 7.3m in 1981 and BD 11m in 1982. Last year's profit has been estimated by the airline's chairman, Bahrain Industry and Development Minister Youssef Shirawi as being around BD 16m or $42.4m. Revenues rose from BD 193m in 1982 to BD 218m last year.

The replacement of the Tristars in the early 1990s will increase the airline's paid-up capital. At present, the authorised capital stands at BD 100m, of which only BD 40m is paid up. "We will need more funds soon," says Juma.

As with many other airlines, it is the routes with the least prestige which earn the most money. The Dubai-Bombay route is still the most profitable for Gulf Air, and within the next eight months the airline plans to increase its frequency from a present 24 flights a week to 30. The Cairo route is also to be expanded, with a possible 18 flights weekly from the Gulf, if negotiations with the Egyptian authorities proceed smoothly.

Gulf Air

KATHY EVANS

Gulf Air also hopes to fly more regularly to Saudi Arabia and, in the next two years, a number of new destinations will come on to the airline's network. Among them are Khartoum, Dacca, Nairobi, Sanaa and possibly Frankfurt.

Gulf Air appears to be adopting a more aggressive stance in its negotiations with the Pakistani authorities in its attempts to secure traffic rights to Rawalpindi. The destination would boost traffic significantly if the talks are successful, for many of the Pakistani community in the Gulf originate from the Punjab area. So far, only the capital Karachi is served by Gulf Air, though Saudia airline already is flying to the northern city, and PIA runs a service there to and from the Gulf. The talks with the Pakistan Government have been going on for some years now, and appear to have reached a virtual impasse.

A further meeting is planned next month in which Gulf Air executives "hope to settle this matter once and for all."

Gulf Air has for many years faced competition from fifth freedom carriers — airlines, mainly from the Far East, which have traffic rights to and onwards from the Gulf. Competition from these airlines has limited Gulf Air's share of the prestigious London route to 30 per cent. During the past few months, the management has been offering discounts, largely in the UAE. Fares from the Emirates to London have dropped by 15 per cent.

"We tried to clean up the market, but now we follow it," commented one senior official, adding that this had been done at the expense of revenue. Such tactics have been necessary merely to maintain the airline's market share in its own area. Gulf Air recorded in 1983 a passenger/kilometre total of 3.65bn compared with a 1982 figure of 3.5bn. Seat/kilometres went up from 6.11bn to 6.75bn in the same period.

The slowdown has not tempted the airline to cut down on cabin services. Although flying times between the Gulf states are about the same as the London/Paris journey, Gulf Air, unlike the European airlines, still provides endless coffees, beers and the best cucumber sandwiches in the Gulf.

An additional BD 500,000 is being spent this year on providing additional staff per aircraft and better menus for passengers. However, the airline must be under increasing pressure to go "dry" following similar decisions by Egyptair and PIA this year.

The cargo side of the airline continues to be successful. Gulf Air was recently nominated the most punctual airline for air cargo on the Gulf/London run. Cargo traffic is growing at the rate of 10 to 12 per cent a year, accounting for 12 per cent of the airline's revenues. But this pace cannot be kept up, says Ralph Townsend, cargo manager. Less construction in the region could cut growth rates to between 6 and 7 per cent until 1986, he predicts.

Gulf Air cargo executives have also been finding some ingenious methods of solving the old problem of cargo trade in the Gulf—getting a cargo for the return run. A sea/plane cargo service is developing out of India through Dubai, where Indian traders, principally in the rag trade, are finding that shipments can be in London in four days instead of three weeks by sea. The boat takes the cargo to Dubai, where it is put aboard Gulf Air. Air cargo all the way from Bombay to London costs about BD 1 a kilo, whereas the combined sea/air route costs less than one-third of that.

Gulf Air has also discovered a profitable source of cargo from Sharjah, which is now exporting around two tonnes a day of cucumbers and tomatoes to Kuwait. Moreover, with so many people terminating work contracts, the Far East and Asia route has experienced heavy traffic in unaccompanied baggage. Shorter work contracts are also encouraging many expatriates to take their cars home with them.

Booming population drinks the oasis dry

Water

KATHY EVANS

THE TRAGIC-LOOKING stumps of palm trees which dot the gardens in Bahrain's rural areas provide the sharpest evidence of the island's current water crisis.

Bahrain has been known throughout history as an oasis of lush date gardens and sweet water. But today the country's population has far outgrown the natural water supply. A crash programme of construction is under way to increase the supply of desalinated water so that the reliance on groundwater can be lessened.

Much damage has already been done to the springs, and over-use has led to seawater infiltration and closures of wells.

The problem is chronic now, but under present plans will be eased appreciably in the coming few months. The aim of the Bahrain water department is to cut down the use of groundwater to 8m gallons daily, so that natural replenishment can be resumed.

At present 92 per cent of the island's daily water requirement is met by spring water, and only 8 per cent comes from desalination plants. Unless this is cut back to a total of 90m cubic metres a year, the water table will continue to drop. It has already dropped by two metres, and water quality has deteriorated drastically.

The World Health organisation recommends a maximum level of dissolved solids of 1,500 mg/l in tropical areas. Currently the level in Bahrain varies from 2,700 mg/l to in excess of 5,000 mg/l. Moreover, Bahrain has experienced problems in keeping up the bacteriological quality of the water supply.

Burden

Random sampling last year revealed that 11 per cent of the water tested was found to be "unsatisfactory." In addition to problems on the quality, Bahrain also experienced difficulties over the quantity supplied to consumers.

Last summer central areas of the island, which account for some 25 per cent of total consumers, suffered water cuts of eight hours a day.

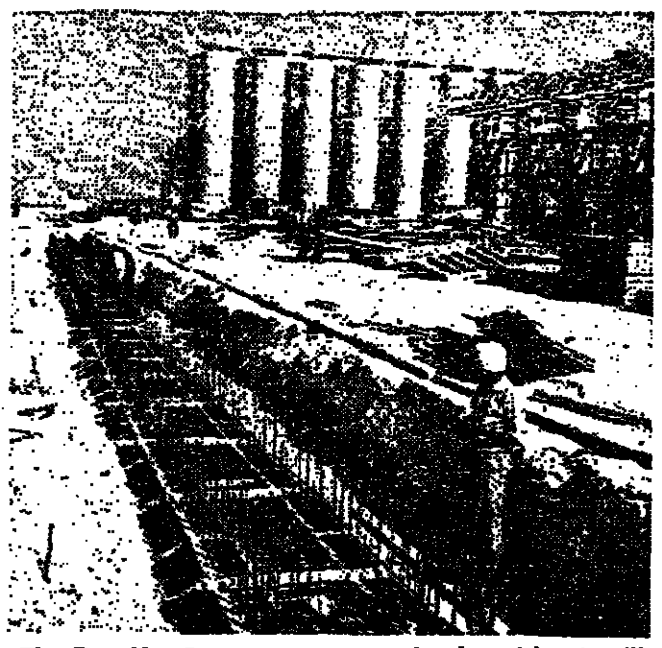
Saif bin Ali, director of Bahrain's water department explained: "We lost one ground pumping station because of salinity last year, so we had to cut down on pumping to protect the quality of the water."

Clearly, Bahrain faces a prospect of continual construction of water plants in order to keep up with the demand. The provision of water and electricity supplies has proved a heavy burden on the budgets of nearby, much richer states than Bahrain.

Fortunately, Saudi Arabia and Abu Dhabi have stepped in to help the island foot this growing bill, and both countries are financing projects to increase the supply.

Even so, water and electricity needs are absorbing about one third of the country's budget, with much of the money going in subsidies to the consumers.

Demand in 1984 is expected to be around 45.5m gallons a day which is about 8.5m short of supply. Demand is still increasing by about 10 per cent a year, and though this represents just half the growth rates being experienced in 1978, water planners are still projecting a doubling of the population by the year 2000.



The Ras Abu Jargur reverse osmosis plant (above) will be the biggest in the Gulf when it is completed by the end of this year.

In 1990, demand is expected to go up to 59m gallons per day, and five years later to 86m. By that time, natural water will be providing only one tenth of the total water supply.

Within the next few months, three more units at the Sitra water plant will be coming on stream, all of them paid for by the Bahrain Government. In addition to these units, another of similar 5m gallons per day capacity will be coming into operation, under an assistance programme provided by the government of Abu Dhabi.

Together with the existing 5m capacity, these additional units will mean a total supply from Sitra of 25m g/d. The Bahrain Government has spent BD 50m on this multi-flash system plant and the Abu Dhabi Government a further BD 20m.

By the end of this year, Bahrain will also have the Gulf's largest reverse osmosis plant in operation. Built at a cost of BD 36m, the RO plant at Ras Abu Jargur will have a capacity of 10m g/d. The plant's construction is being undertaken by the Sumitomo/Sasakura consortium.

A decision is expected shortly on the design of the island's next water plant at Al Dur. Financed entirely by the Saudi Arabian government, tenders have been submitted by contractors using both the multi-flash system and reverse osmosis

Seawater intake

Contractors bidding on the RO system have emerged with a clear lead, the lowest price coming from Weir Westgarth of Britain. Their bid of SR 172.7m contrasts with the cheapest multi-flash system price of SR 189m from Mitsui of Japan.

All the bids include both the plant and civil works, such as the seawater intake.

In its RO bid, Weir Westgarth has teamed up with South Korea's Daewoo Corporation. Consultant to the Saudi client, the Saudi Arabia Saline Water Conversion Corporation, is the Riyadh-based Al Bawardy consulting engineers.

Saif bin Ali of the Bahrain water department believes it is still questionable whether reverse osmosis is the cheaper option. "Certainly the international market has come down. Multi-flash is more economical when power and water plants are combined, but reverse osmosis may be cheaper for a water plant alone."

He points out that the BD 36m paid for their own Ras Abu Jargur plant included storage tanks in the price.

Even with the Al Dur plant in operation by 1986, Bahrain will still need to be planning for a further water plant for 1990 if the use of ground water is to be kept at the required 8.5m g/d.

It is likely that the Bahrain Government will have to foot the bill for this additional plant, and if GCC aid cannot be secured, provision must then be made in the 1986 budget, water department officials say.

Electrowatt, the Swiss planing organisation, has identified a site not far from the drydock, though the decision is still a long way off.

By 1990, if the plant is not considered soon enough, the gap between demand and supply is going to be at least 9m g/d, growing to 22.5m g/d in 1965 and 36.5m g/d five years after that.

The Bahrainis have to decide whether to build one plant capable of expansion, or in the interests of security, build a number of smaller capacity plants scattered around the island. By then, the Saudi-Bahrain causeway will be well and truly opened, and that, too, opens up possibilities of additional supplies.

Confusion over who leads the field

BAHRAIN'S MAJOR trading partners are Britain, the U.S., Australia, Japan, West Germany and Saudi Arabia. But the pecking order seems to depend on whose numbers are used and what they include.

Crude oil from Saudi Arabia for processing through the Bapco refinery, when it is running at full capacity, is worth nearly as much as all the non-oil imports from the rest of the world put together.

That aside, official Bahrain statistics show the U.S. as top exporter in 1982, with sales of $350m taking a 20 per cent share of the $1.76bn market. They give Japan 15.8 per cent, Britain 14.8, Australia 7 and West Germany 6.9. But for the same year, the U.S. Department of Commerce claims only fourth place and puts Japan on top, followed by Australia and Britain. The Australians agree they are probably second. The British believe they outperform the Americans, the Japanese, and everybody else.

One reason for the discrepancies may be that Bahrain's statistics are based on cif (carriage insurance and freight) values, while most other countries use fob (free on board) or fas (free alongside ship).

Some sets of figures — certainly the locally-computed $350m of U.S. exports—include what the U.S. commercial attache regards as transhipment items, notably engines for Boeing 747s delivered to international airlines at Bahrain Airport.

By their own reckoning, the U.S. sold $220m worth of goods to Bahrain in 1982, including $30.2m of pitch coke and petroleum coke, $5m of passenger cars, $4.6m of furniture, $4m of oil refinery plant and equipment and $3.2m of crushing machinery and cement mixers.

In 1983 exports are estimated to have dropped off by 38 per cent, to $135.8m. This is attributed partly to the economic downturn in the Gulf and partly to the strength of the U.S. dollar which made European goods more competitive. U.S. imports from Bahrain are relatively small, at $32.6m in 1982 and $25m last year.

Over 70 U.S. firms have offices in Bahrain. They include 14 banks, two brokers, and a large number of oil industry service companies such as Halliburton, Core Laboratories, Taylor Diving and Scan Drilling.

Trade with Japan is much more of a two-way affair, with the balance in Bahrain's favour despite the popularity of Japanese cars, outboard engines and electronics. Japan's purchases of oil products, LPG and aluminium from Bahrain added up to more than $250m in 1982.

Imports from Japan may show a considerable increase in 1983 and 1984 as a result of Kobe Steel's major turnkey contracts to build the 4m tpy pelletising plant and the 40,000 tpy aluminium rolling mill. Japanese suppliers and contractors have also put in successful bids for a number of electricity and water desalination projects, and Shimazu has won the $16m construction contract for United Gulf Bank.

Among the trading companies on the island are C. Itoh and Mitsui, while all the leading banks and securities companies are represented.

Trade

MARY FRINGS

The major Australian commodity export is alumina for the Alba smelter, but its value is confidential. Canberra puts the country's total 1982 exports to Bahrain at $228m (which seems to bear little relation to the Statistics Directorate's $122m), with construction materials at $13.5m; live sheep and cattle for the meat market $11m; wheat for the flour mill $11m; and chilled and frozen meat $7.7m. Other foodstuff sales are also substantial.

British exports to Bahrain were worth £150m ($212m) last year, according to the UK Department of Trade, and $260m in 1982, according to local statistics. Embassy officials believe TriStar engines for Gulf Air can properly be included. British cars are not doing very well, with the shining exception of Rolls-Royce, but construction equipment is a major item, with IBM's computer hardware coming up strongly and British-made software taking possibly more than half the market.

British shoppers can feel thoroughly at home in one of the local supermarket chains, which sells Sainsbury's branded goods as well as Tiptree Marmalade.

On industrial projects, the UK's Davy McKee lost the petrochemicals contract to Italy's Snamprogretti and the rolling mill to Japan's Kobe Steel, but Motherwell Bridge landed a $10m contract for the supply and installation of petrochemical storage tanks and Balfour Beatty has almost completed a $14m deep-water jetty for the pelletising plant.

One of the most active building contractors in the market, since Taylor Woodrow finished the Sheraton complex and Wimpey the Chartered Bank, is a joint venture between Costain and the local Mohamed Jalal group. Among its recent jobs was the national sports stadium and Bahrain's first multi-storey car-park.

But it is in the consultancy field that British firms are most firmly entrenched. Two of the three consultants on the $500m Gulf University project are British (W. S. Atkins and YRN); so incidentally are all three of the quantity surveyors. Sir Alexander Gibb/Gibb Petermuller has a long association with the development of the airport, John Taylor and Sons with water resources and Watson Hawkesley with the sewerage system. Halcrow/Fox did a major traffic study. Rendell Palmer and Tritton masterminded the construction of the container port and a causeway and bridge link from the port area to Sitra island, while Module Two has specialised in *sports facilities*.

Other nationalities, however, are also well represented. The Electricity Supply Board of Ireland has worked with Bahrain's State Electricity Department (BSED) for 10 years. Another Irish company, McInerney, is active in the housing market.

Swiss consultant Motor Columbus has carried out a number of industrial diversification studies and is currently involved with the Rifaa II power station and the just-completed furniture factory. Electrowatt has done one-off studies on special projects for BSED, while Alusuisse provides technical assistance to the aluminium extrusion plant, Balexco. On the contracting side, Brown Boveri is building Rifaa II and a BSED systems control centre.

Italy is represented by Snamprogretti and its associate, Saipem, on the petrochemicals project, and by Italimpiente on water desalination. Cimprogretti is also building a hydrated lime plant for AISCO. The Scandinavians are active mainly on the consultancy side, with the Danish company Cowi-Consult having worked on land reclamation for industrial areas, the Muharraq dhow port, infrastructure for housing and BSED projects, and Sweco of Sweden on water projects.

Arab companies — particularly those based in Lebanon—have also carved a place for themselves in the market, with consultants Dar Al Handasah, and Khatib and Alami among the best known. The Crown Prince's official palace, the Chamber of Commerce building and one or two other major office blocks owe their design to the Iraqi architectural partnership Makiya and Associates, while the Salahuddin Abbey Hanson Rowe partnership is probaly the leading local architect.

A growing menace

Drugs

MARY FRINGS

DRUG ABUSE has assumed alarming proportions in Bahrain over the last couple of years, falling on the island very suddenly in the words of one official.

In 1983 14 young Bahrainis died of an overdose of heroin and over 800 addicts were known to the police. Local families have been profoundly shocked by the deaths, the more so because this is not a problem which is shared by expatriates. For them, alcohol is cheaper and more readily available.

The drug users are almost exclusively male, and apart from a few hard-core addicts, all in their teens and 20's. Hardly any of them picked up the drug habit at foreign universities, although this used to be regarded as one of the major risks of uprooting young people from a traditional society and sending them to study abroad.

Lack of parental control gets some of the blame—particularly where the father is "too busy" with his affairs to take enough interest in his adolescent sons. The biggest factors, however, seem to be the increasing tendency of students and young working men to travel abroad on holiday, and the proximity of India and Pakistan where cheap drugs are readily available.

Some simply stay at a modest Bombay hotel until their funds run out, buying heroin at the equivalent of $6 or $7 a gram against a black market price back home of $160. Invariably they try to bring supplies back with them, both for their own use and to sell.

Hard drugs imported into Bahrain comes in for consumption on the island, rather than for onward routing to Europe, so drug squad hauls are comparatively small. The quantities seized in 1983 included 7kg of heroin, 310gm of heroin and morphine mixed, 16 kg of hashish and 13 kg of pure opium.

Doctors say a heroin derivative known locally as gard is more popular than pure heroin. The white powder can be poured onto a foil gum wrapper and a lighted match held underneath, so that the user can inhale the fumes, but it can also be injected.

Hashish has been around for a long time and there is not too much official concern over its use, unless it leads to crime on traffic accidents, and the same is true of marijuana. There is little evidence of LSD, and none of cocaine, mescaline (the extract of the peyote cactus) or PCP.

To reduce smuggling, the criminal law was amended last November to impose a penalty of life imprisonment on anyone trying to bring in a substantial quantity of drugs. No-one has yet been convicted under the new legislation, but two cases are pending.

It is also an offence to grow, obtain or possess narcotic substances.

The authorities are also trying to control the supply of methadone and tranquilisers used to alleviate withdrawal symptoms by concentrating treatment of addicts at a Government drugs unit, attached to the psychiatric hospital. Private practitioners and non-government hospitals have referred all cases there, since last July.

The intention is to set up a permanent rehabilitation centre, where addicts would not only be "dried out" but given long-term therapy.

As an interim measure, addicts attend an outpatient clinic for the relief of withdrawal symptoms, or in severe cases are admitted to hospital for one to two weeks. In the last six months of 1983, the drug addiction clinc saw 479 heroin addicts in a total of 2,290 visits, and hospital admissions totalled 340.